dominion textile limited

annual report 1977

Contents

Stock Transfer and Dividend Disbursing Agent
The Royal Trust Company: principal offices in Montréal, Toronto and Vancouver

Stock Registrar
Montreal Trust Company: principal offices in Montréal, Toronto and Vancouver

Trustee: 5¾% Convertible Debentures, 1992
Montreal Trust Company: principal offices in Montréal, Toronto, Winnipeg, Calgary and Vancouver

Stock Exchange Listings
Montréal and Toronto

Annual Meeting
The annual meeting of shareholders will be held at 3:30 p.m. DST, on Wednesday, 19 October 1977, at the head office of the Company, 1950 Sherbrooke Street West, Montréal.

1 Highlights

3 Report to the Shareholders

5 The Year in Review

Canadian Operations

DHJ Industries Inc.

Organization

11 Financial Review

13 Balance Sheet

14 Income and Retained Earnings

15 Changes in Financial Position;

Auditors' Report

16 Notes to Consolidated Financial Statements

21 Ten-year Review

22 Plants and Subsidiary Companies

24 Directors and Officers

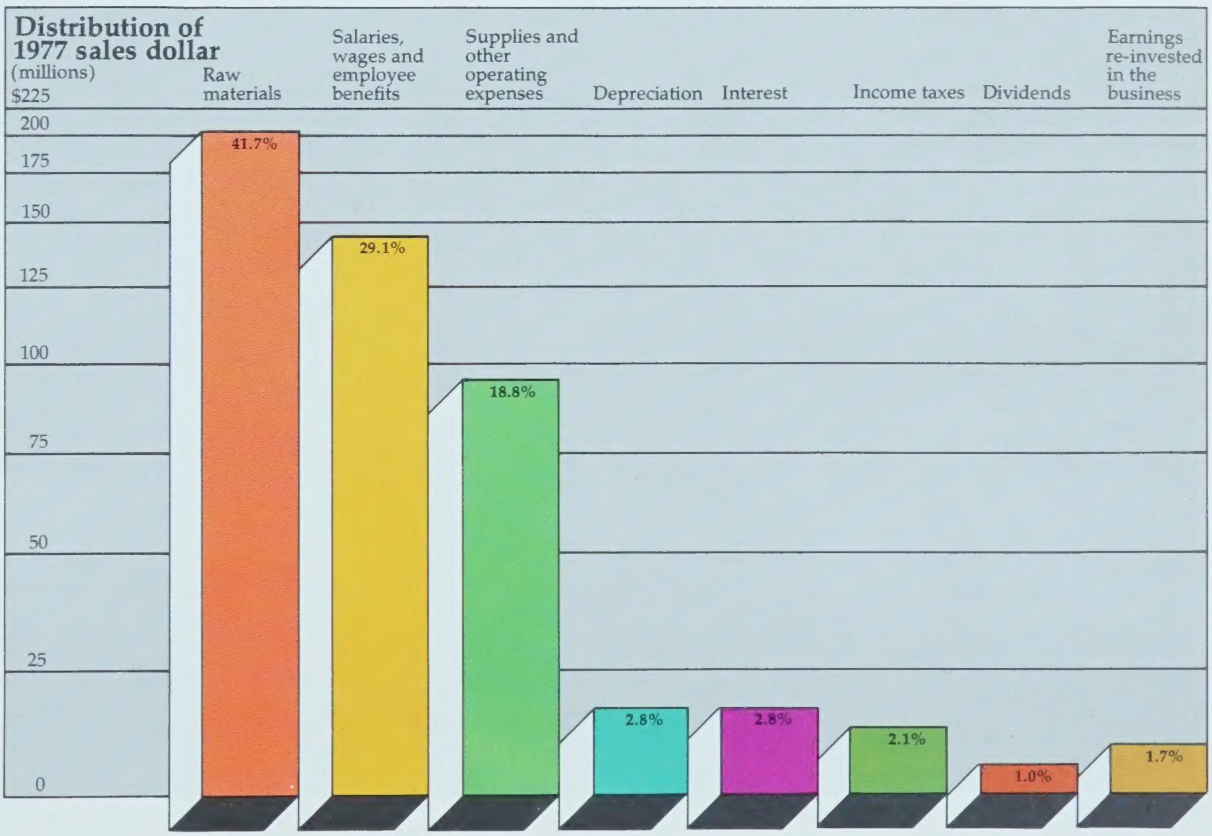
The Cover
All power flows, or flowed at one time, from the sun. To serve man's purposes we must make the best possible uses of such solar power, both active and stored in nature — waterfalls, oil, gas, coal, verdant woods, the winds and even the waves of the sea. We have the responsibility to avoid wasting nature's bounty.

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au Secrétaire, case postale 6250, Montréal, Québec H3C 3L1

Highlights

(in thousands of dollars)

	1977	1976
Sales	**$498,939**	$475,420
Net income before extraordinary item	**14,593**	9,598
Net income after extraordinary item	**13,344**	9,598
Cash generated from operations	**$ 28,445**	$ 25,142
Capital expenditures	**22,056**	18,702
Working capital	**$116,785**	$106,145
Long term debt	**110,082**	104,407
Shareholders' equity	**124,164**	115,513
In dollars per convertible share:		
Net income before extraordinary item	**$ 1.87**	$ 1.23
Net income after extraordinary item	**1.71**	1.23
Cash generation	**3.64**	3.22
Dividends	**0.60**	0.60
Book value	**15.85**	14.75
Market price — High	**9 1/2**	10
— Low	**6 7/8**	7 1/2
Number of employees at year end	**12,015**	13,130
Salaries, wages and employee benefits	**$145,300**	$135,300



Thomas R. Bell Ronald H. Perowne

Report to the Shareholders

We are pleased to report to our shareholders that the results for the year ended June 30, 1977 showed a marked improvement over the level of performance for the previous year.

Consolidated sales reached a new high of $498.9 million in spite of depressed conditions in a number of major textile markets.

Earnings of $14.6 million or $1.87 per share, before an extraordinary item, compared most favourably with the preceding year's net income of $1.23 per share.

In view of the continuing uncertainty in double-knit markets, we made the decision during the year to write off the present value of leases and to fully amortize other machinery relating to the Knit Division in the United States. The net effect, after taking into account the balance of a provision established for this purpose in prior years, was an extraordinary charge against consolidated income of $1.2 million, or 16 cents per share.

For the first time in its history the Company derived a significant contribution to consolidated earnings from sources outside Canada. The benefit of the geographical diversification undertaken in 1975 with the acquisition of DHJ Industries Inc. became clearly evident as the year progressed and consolidated earnings improved in spite of depressed results in Canada. The strengthening of the U.S. dollar against the Canadian dollar also helped and foreign exchange translation gains in fiscal 1977 replaced exchange losses in the preceding year.

The market for textiles in Canada was weak and the results from our Canadian operations were very disappointing. A hesitant Canadian economy, coupled with the awesome burden of foreign imports both at the fabric and garment levels, resulted in a number of companies in our industry going out of business. In our own case there have been layoffs in some plants as well as temporary shutdowns. As stated in previous reports to shareholders, a textile plant cannot remain profitable with idle equipment and short-time operations. Dominion Textile is no exception to this rule.

We are encouraged by the announcement last November by the Honourable Jean Chrétien, Minister of Industry, Trade and Commerce, of the Government's decision to limit 1977 garment imports from all countries to the level of 15 million dozen garments that pertained in 1975. While the action came too late to have any beneficial effect on the results of the year under review, if the policy is administered effectively it will result in a reduction of 7 million dozen garments entering this country from abroad and will have a positive effect on the Company as soon as the tremendous build-up of 1976 garment imports has worked through the Canadian distribution system.

Since the Minister's announcement the Textile and Clothing Board in Ottawa has completed a most comprehensive inquiry on garment imports as well as on imports of sheets and pillow slips from major low-cost exporting sources. The reports of the Board support the contentions of our industry and, if acted upon, will provide in the long term for a more balanced share of market and growth potential between domestic production and imports. Because the textile industry is a candidate capable of helping to alleviate the existing problem of high unemployment in this country, we look forward to the early implementation of the recommendations of the Textile and Clothing Board.

The ability to respond to change is always a challenge to any corporation. In order to make our business more responsive to change and to the needs of the marketplace, and in recognition of the ever-increasing size of the Company, the Canadian operations were further subdivided mid-way through the year. At the same time some of the Canadian subsidiary companies were realigned with the four new divisions of Apparel Fabrics, Consumer Products, Sales Yarn and Industrial Fabrics. The reorganization went smoothly and already some benefits of the change are being felt. Attention is being focused particularly on inventories which, on a unit basis, are in most cases lower than they were at this time last year. Accordingly, any upturn in the business climate in Canada will reflect quickly in increased activity in our plants.

We are continuing our efforts to rationalize our production — and with some success. The recent announcement concerning conversion of a part of the Drummondville plant to the manufacture of denim is a definite move towards rationalization and within the next twelve months this plant will have a much simpler product mix.

We have signed two-year collective labour agreements with unions representing approximately two-thirds of our Canadian labour force. Negotiations are in progress at the remainder of our Canadian plants and we expect that these contracts will be successfully concluded in the near future.

In the United States the denim operations were again highly profitable. DHJ's domestic interlining business suffered from a soft market for apparel but some improvement was felt as the year progressed. The Knit Division continued to incur losses but at a level a good deal lower than in the preceding year.

DHJ's subsidiaries in Europe and South America achieved excellent results despite somewhat volatile markets. Our share of the earnings of the associated companies more than doubled during the year. All in all, while there is still more work to be done to further strengthen DHJ, we are very pleased with the progress achieved in its second year under Dominion Textile's ownership.

We would point out that the encouraging results of DHJ were achieved during a period when the United States' textile markets were not particularly strong. Our counterparts in the United States and the European Economic Community are protesting vehemently the injury caused by increasing imports from low-wage countries and their representations to government are parallel to our own. However, a major difference lies in the fact that where Canada has given well over 50% of its textile market to imports, the U.S.A. and the E.E.C., with the exception of the United Kingdom, restrict imports to a much lower level. In the U.S.A. for example, imports represent less than 15% of the textile market.

If the textile market in the United States strengthens, and assuming no further share is given over to foreign imports, we know that DHJ will have a higher earnings potential. The new bleach, dye and finishing plant coming on stream this fall at Monroe, Louisiana, should assist the Interlining Division in showing an improved performance next year. We do not expect any positive contribution to earnings from the doubleknit plant in Hickory, North Carolina, but with extraordinary write-offs provided this year, losses should be reduced substantially in the next fiscal year.

Much has been said and written by the business community about the language legislation now before the Québec National Assembly. We share many of the concerns already expressed but we must assume that while the provincial government is working to preserve the French language and culture, it is equally cognizant of its responsibility to maintain an atmosphere which will preserve and create job opportunities for the people of Québec. Dominion Textile has played an important role in the industrial life of the Province of Québec for nearly 75 years and we certainly have no desire, and presently have no plans, to do otherwise in the future.

We believe we enjoy excellent relations with our thousands of employees and the Directors acknowledge the cooperation of the workforce during the past year, especially at those difficult times when it became necessary to reduce activity at several of our plants.

Dominion Textile Limited, like other companies in Canada, is faced with all of the upward cost pressures and we are acutely aware that a mood of confidence must be instilled in this country to start people buying again. We will continue to strive to keep the respect of our valued customers and to earn a larger share of their business. With an increased flow of orders, the Company is in a good position to make a very creditable showing for its shareholders and its employees.

Submitted on behalf of the Board

Chairman of the Board and Chief Executive Officer

President and Chief Operating Officer

Montréal, Québec
August 10, 1977

The Year in Review

CANADIAN OPERATIONS

The past fiscal year was difficult for most of the Canadian operations as record import levels, high retail inventories and slow consumer demand prevailed in many market areas. The diversification of the Company's product lines again proved its value. The Apparel and Consumer Divisions experienced sharp declines in their results but the Industrial and Yarn Divisions were up from the previous year. While sales of the Canadian divisions increased 7%, margins were generally under considerable pressure and overall profits were down.

The high value of the Canadian dollar relative to foreign currencies during the first half of the past fiscal year accentuated the already difficult market conditions both by making imports of fabrics and garments less expensive, and by increasing the price of our goods in world markets. Exports of $24 million were $2 million less than the previous year. The decline in the value of our currency in recent months came too late to have much impact on the year's operations but should improve prospects for the future.

Raw cotton prices on world commodity markets were erratic during the year. The world supply of cotton remains tight by historical standards and the market remains vulnerable to unforeseeable developments.

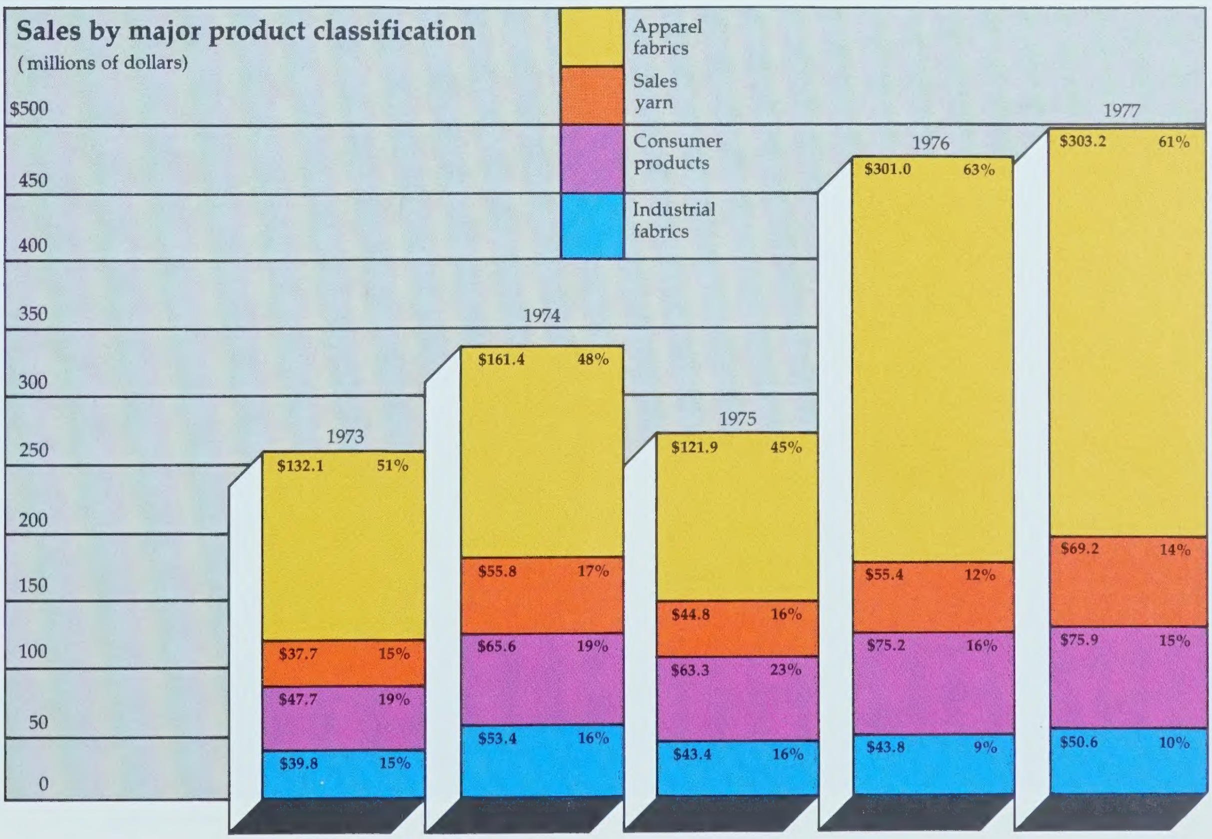
Since cotton in international markets is priced in U.S. currency, the cost of importing cotton has increased due to the strengthening of that currency in recent months.

Wage costs are considerably higher than in the United States and elsewhere and, as a result, there is continued pressure on margins to meet import competition. To improve productivity and to maintain the efficiencies needed to partially offset these higher labour costs, our plants have to run at close to capacity. Many of them were not able to do so in this past year.

The lower value of the Canadian dollar and the actions taken by the Government to limit imports indicate a potential for better results in the apparel fabrics and consumer products areas in the ensuing months. The outlook for sales yarn is good but it will be difficult to repeat last year's performance. In today's uncertain economic climate, not much change is foreseen in the markets for industrial fabrics.

Apparel Fabrics Division

During the year the garment industry in Canada came under the most intense competition in its history from products imported from low-wage countries. This situation created a major disruption of traditional market patterns and resulted in reduced



activity for Dominion Textile in apparel fabrics, particularly in lightweight prints and plain-shade goods.

Corduroy and other heavyweight fabrics were less affected by import competition and results in these areas were better. By adjusting product mix, we were able to operate the greige plants at capacity during the year but the finishing plants operated at about only 75% of capacity. As a result of the lower volume of sales combined with narrower profit margins, divisional profits were down substantially from the previous year.

A capital expenditure of $8.5 million is planned for the current fiscal year to enable the Division to produce heavyweight denim in Canada. Some of the existing looms at the Drummondville plant will be converted to denim production and an indigo-dye finishing range will be added at the Magog Finishing plant. The addition of denim to the product line will complement an already strong market position in corduroy and enable the Division to provide a complete line of heavyweight goods for the major jeans producers in this country. Production is expected to commence by April 1978.

Consumer Products Division

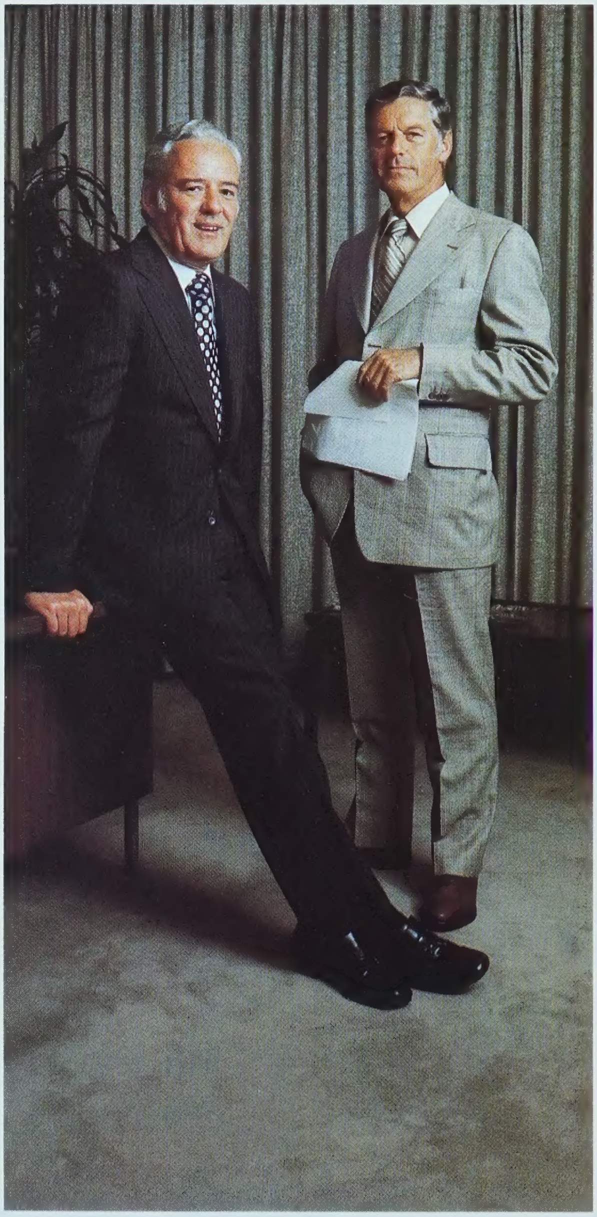
The Consumer Products Division has a high degree of visibility with the general public through brand names known from coast to coast such as TEXMADE sheets, pillow slips and blankets, ESMOND blankets, bedspreads and draperies, and CALDWELL towels, sheets and pillow slips.

In fiscal 1977 the performance of the Division was significantly below expectation and profits suffered. The primary problem was a combination of high retail inventories and imports which reached record levels. Sales of sheets, pillow slips and towels were down considerably and a sluggish market for these products made it impossible to increase prices sufficiently to offset cost increases.

For the first time in this decade activity at the Sherbrooke plant had to be curtailed to a two-shift operation to keep inventory levels in line with demand. Temporary closings were also required at the Caldwell towel plant in Iroquois, Ontario.

The Government has recognized the problems created by the import competition and in March 1977 announced it would seek bilateral agreements with some of the low-wage countries to restrain their exports of sheets and pillow slips to Canada.

Sales of ESMOND bedspreads, blankets and drapery coordinates were better than the previous year and TEXMADE flannelette blankets continued to be good sellers. Energy conservation and the trend towards turning the thermostat down at night in Canadian homes is apparently becoming a factor in this segment of our business.



William A. McVey Harry Braid

We have achieved the expected improvement in quality and efficiency from the $3.5 million modernization of the Caldwell towel plant completed in May 1977. The continuing financial benefit of this expenditure will be felt in the current fiscal year.

Sales Yarn Division

The Sales Yarn Division achieved a record level of shipments which, at $69 million, were 25% higher than the previous year.

Demand was strong from all sectors of the knitting trade. Some of the increased sales value reflects the higher cost of raw materials, wages and supplies but a significant contribution derives from an upgrading by customers to a better quality and a more expensive product mix.

Investments in recent years to provide flexibility between cotton and blends in our yarn plants have proved beneficial. Polyester/cotton yarns, in particular, made further gains in market share and the Division's ability to supply the quantity and quality demanded by the market contributed significantly to improved results.

All of the yarn plants operated at capacity throughout the year and the momentum generated by a steady flow of orders created good stability in the workforce and high levels of efficiency.

The central yarn distribution warehouse in Montréal completed last year at a cost of $1.0 million is now fully operational and has been most effective in improving customer service.

Industrial Fabrics Division

Most of the trades and industries to which industrial fabrics are sold were affected by the sluggish economic conditions that prevailed in Canada. A continuing erosion of traditional markets for woven fabrics resulted in a decision to concentrate the Company's basic industrial weaving at the Yarmouth, Nova Scotia, plant and to convert the Drummondville plant mainly to the production of denim.

The trend away from the use of woven fabrics, particularly in automobiles, opened new marketing opportunities for nonwoven products in which the Company invested a few years ago.

The Fiberworld plant at Hawkesbury operated at close to capacity as there was a steady demand for the polypropylene carpet backing which it produces.

Demand strengthened during the year for specialized textiles sold to the rubber industry. These products, namely tire fabrics, ducks for conveyor belting, and cord for V-belts, are sold against international competition in domestic and overseas markets. The success achieved comes as a result of continuing

Alex R. McAslan Robert M. Wilson

development work to keep in the forefront of constantly-advancing technology in this field.

Canadian Subsidiaries

The reorganization and streamlining of facilities completed during last year together with vigorous marketing programs resulted in improved results for Penmans. Penmans' line of knit sportswear and underwear achieved a much broader distribution base during the year and volumes continue to increase in this highly competitive market. Growth has been particularly evident in the area of sportswear where a number of new products and styles have been introduced.

Hubbard Dyers in Montréal, Canada's largest commission dyer of fabric and yarn, had a disappointing year reflecting the loss of the business from the closing of the Company's doubleknit operations in Canada late in fiscal 1976. Aggressive programs to replace this lost business were launched and new products and services were introduced which should help to improve results in the future.

DHJ INDUSTRIES INC.

DHJ's worldwide consolidated sales of $163.3 million were slightly ahead of the previous year but profitability was greatly improved. Including the earnings of its affiliates, DHJ contributed $2.9 million, after an extraordinary item, to Dominion Textile's consolidated results for the year ended June 30, 1977.

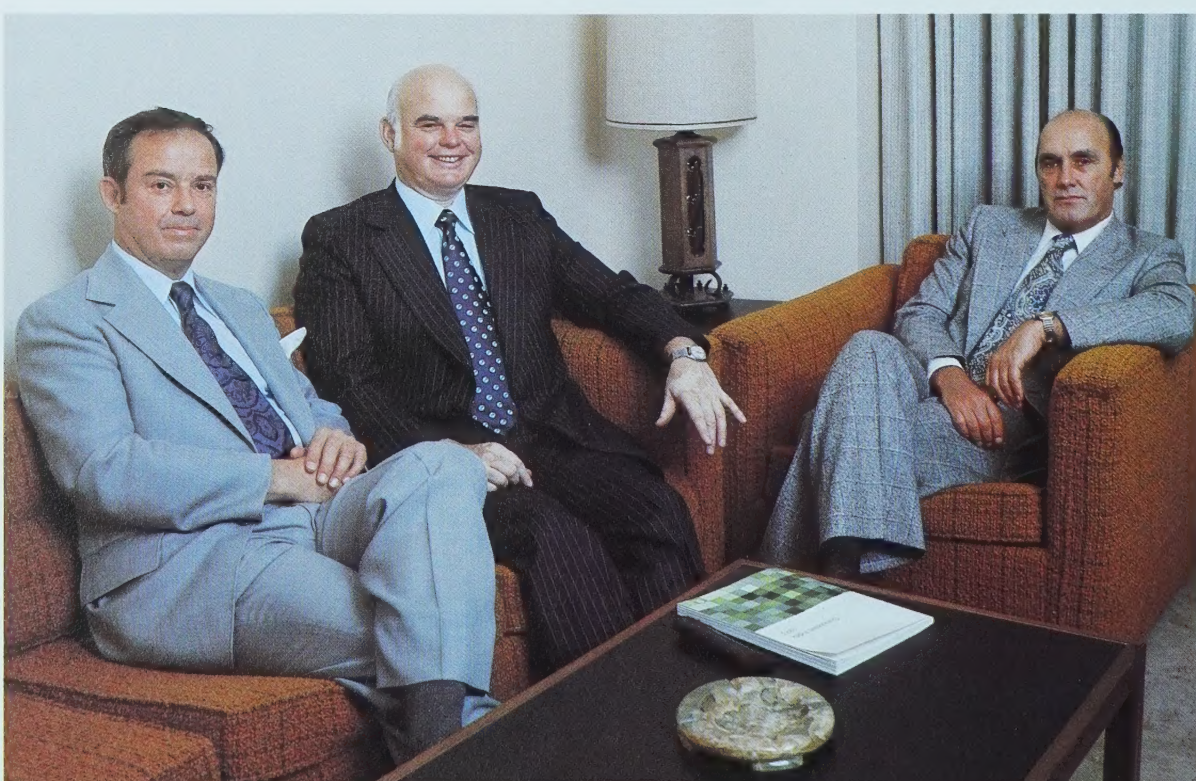
Sales of affiliated companies, which are not consolidated, reached US $82 million this year — up substantially from US $57 million in fiscal 1976.

A vastly improved operating performance essentially derives from the outstanding showing by Swift Textiles in the United States' denim market and a strong resurgence in the profitability of the international operations, particularly in Europe.

Despite the fact that the recovery of the U.S. economy has been somewhat slower than anticipated earlier, particularly in the textile sector, and that there have been some signs recently of softness in international markets, substantial progress continues to be made and further improvement in operating results is expected during the current year.

Interlining Division

The results of the domestic interlinings operation in the United States were a disappointment after the strong comeback in fiscal 1976. Early in the fiscal year the U.S. economy experienced a slowdown which had a serious adverse effect on the apparel industry in that country. Recovery was slow and was further aggravated by a sharp increase in the level of



Ilay C. Ferrier — Arthur P. Earle — Charles A. McCrae

garment imports from low-cost countries. The drop in sales combined with lower profit margins produced less than satisfactory results.

In March business began to improve and while the improvement has not been as rapid or as broadly based as we would like, indications are that slow and steady progress will be sustained for the balance of the current year.

Programs have been accelerated to further rationalize and improve the efficiency of the cut-lining plants and company-wide programs have been introduced for cost reductions in areas such as energy, transportation and inventory management. In addition, the new finishing plant at Monroe, Louisiana, will enable the Division to deal first hand with a number of problems which plague it under the existing commission finishing arrangements, such as slow deliveries, uneven quality and high inventories. It will also facilitate the development and expansion of markets for new products.

Substantially all of the machinery for the Monroe plant is in place, the financing for the project has been arranged in the United States and important contracts for utilities and collective labour agreements have been signed. Production at the plant has just commenced and tight, tough programs are being established to assure top quality and service to customers.

Knit Division

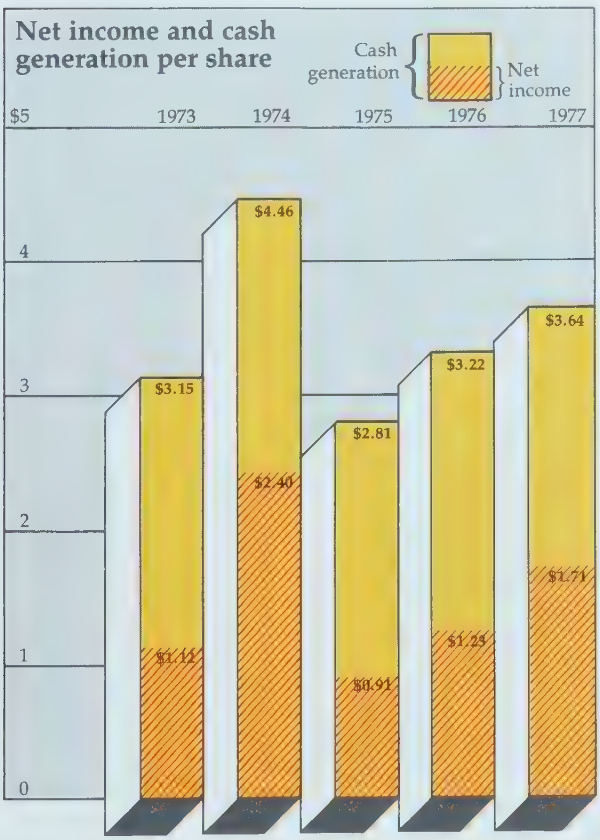
The doubleknit market went through a year of turmoil with the collapse in the polyester filament yarn market, closures of yarn and knitted fabric producers, the inevitable inventory liquidation and the generally soft retail market experienced by customers. There was, however, a marked reduction in the Knit Division's operating loss during the year. The improvement is largely a reflection of the plant consolidation, cost reduction, control programs and product rationalization pursued in the Division since May 1975.

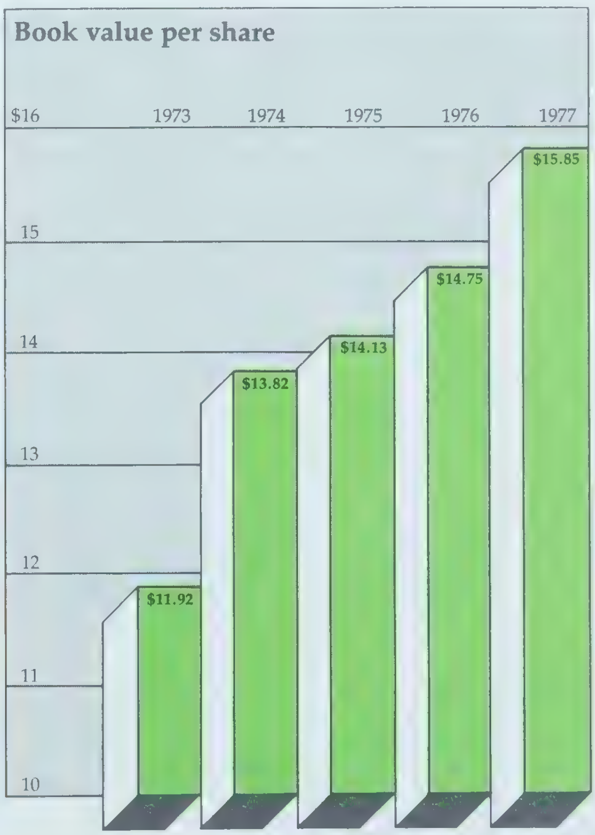
The knit industry made some progress towards recovery in the fourth quarter of fiscal 1977 and the Division has been an early participant in this turnaround. If higher prices and more consistent levels of activity at the plant continue, there may be an opportunity for profitable operation in this area.

Swift Textiles

Swift Textiles established new highs in both volume and profits on its sales of denim fabrics in the United States. A firm market along with Swift's record as a quality and service-oriented denim producer permitted the company to operate at capacity throughout the year.

The timely introduction of new type, high performance cotton/polyester blended and pre-





washed denim products stimulated new interest throughout the jeans industry. A substantial portion of Swift's capacity has already been shifted to this more desirable new-generation denim.

In recent months there have been clear indications that output of good quality indigo-dyed denim has come more closely into balance with demand for the first time in many years. This has created problems for a number of marginal producers of certain types of denim fabrics, particularly those whose quality and service have not been consistent. However, at this time future prospects for Swift continue to be favourable.

International Operations

The demand for interlining products for most of our subsidiary and affiliated companies in the international markets was maintained at a high level throughout the year with the exception of the Far East. Inflation, high interest rates and fluctuations in currency continue to impose difficulties in many countries, but despite this, the profits from our international operations were dramatically ahead of last year. Concern remains, however, that these factors may have a limiting effect on growth and profitability in a number of countries and steps have been taken to try to reduce their impact on future results.

During the spring of 1977 a number of the international markets for interlinings showed signs of softness, particularly in Europe, where an unusually cold spring led to a sharp drop in retail sales of apparel. Recently there have been indications that the market is recovering and a satisfactory volume of sales is forecast for the balance of the year although profit margins may remain under pressure due to higher costs.

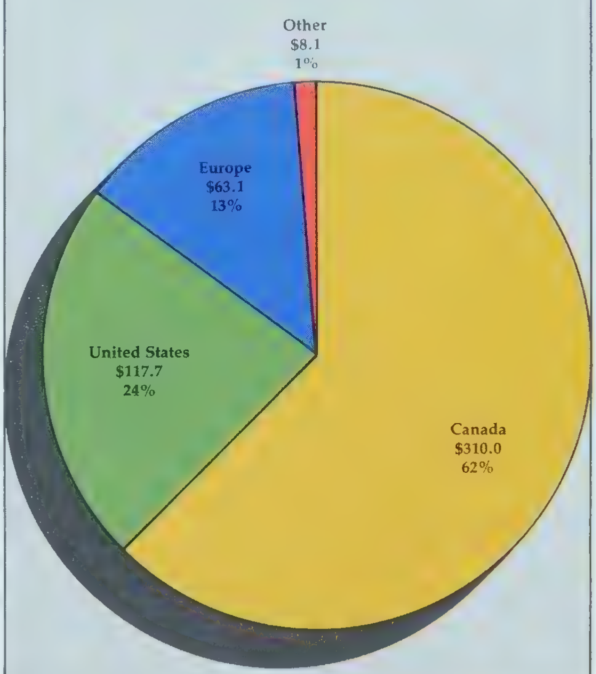
During fiscal 1977 the increase in the sales of affiliated companies was enhanced significantly by the steady expansion of the volume of denim sales in Europe as the Tunisian production facilities owned by an agency of the Tunisian government, came fully on-stream. Dominion Textile personnel continued on site in Tunisia throughout the year to provide technical assistance and on-the-job training. Although tremendous progress has been made, the ready availability of prime quality goods in the market is expected to have a limiting effect on the expansion of sales and profits for the European denim operations during fiscal 1978. While an affiliate of DHJ is the exclusive European distributor of the Tunisian denim a number of problems remain to be resolved before any final decision or action can be taken on its option to acquire an interest in the manufacturing operations in Tunisia.

ORGANIZATION

The following appointments to the position of Vice-President, General Manager were made during the year as a result of the restructuring of the Canadian operations:

Harry Braid, Consumer Products Division;
Alex R. McAslan, Industrial Fabrics Division;
William A. McVey, Apparel Fabrics Division;
Robert M. Wilson, Sales Yarn Division.

Geographical distribution of sales
(millions of dollars)



Financial Review

Sales

Consolidated sales showed an increase of 5% to $498.9 million in the year ended June 30, 1977, compared with $475.4 million the previous year.

Sales by the major product groups are shown below:

	($ Millions) 1977	1976
Apparel fabrics *Woven, nonwoven and knitted fabrics for the apparel industry, including interlinings*	**$303.2**	$301.0
Consumer products *Sheets, pillow slips, towels, draperies, bedspreads, blankets, underwear and other products*	**75.9**	75.2
Sales yarn *Cotton, man-made and blended yarn for knitters and weavers*	**69.2**	55.4
Industrial fabrics *Fabrics for use by the rubber and other manufacturing industries*	**50.6**	43.8
	$498.9	$475.4

Certain fabric sales to the home furnishings and home sewing markets, formerly included with Consumer Products, are now included with the Apparel Fabrics Division, and the sales figures for last year have been restated accordingly.

The Sales Yarn Division accounted for the major portion of the increased sales. Canada remains the dominant market accounting for 62% of total sales. The United States with 24% and Europe with 13% of sales continue to be important markets for the Company's products.

Earnings

Earnings were the second highest in the Company's history, exceeded only by the record performance of fiscal 1974. Net income of $13,344,000, or $1.71 per share after an extraordinary item of 16 cents per share, represented a 39% increase over the previous year. In fiscal 1976 earnings were $9,598,000 or $1.23 per share.

On a fully-diluted basis, which assumes that all of the 5¾% Convertible Debentures had been converted at the beginning of the year, earnings per share would have been $1.51 compared with $1.10 a year ago.

With DHJ now starting to contribute to consolidated earnings, net income as a percentage of sales increased to 2.7% from 2.0% in 1976.

Because the Company has substantial current assets denominated in foreign currencies, particularly United States' dollars, foreign exchange translation gains or losses can occur when the value of these assets is converted into Canadian dollars. A gain of $1.1 million was recorded, due mainly to the strengthening of the U.S. dollar during the past year, compared with a loss of $2.7 million in fiscal 1976. Because of the material impact that translation gains and losses have on the results, they have been shown as a separate item on the Consolidated Statement of Income.

The 20% minority shareholding in Swift Textiles Inc., the denim-manufacturing subsidiary of DHJ Industries constitutes the major part of the $1.7 million share of consolidated earnings attributable to minority interests.

Consolidated earnings per share by quarter were consistently above the previous year as shown below.

	1977	1976
First quarter	**$0.23**	$0.07
Second quarter	**0.34**	0.25
Third quarter	**0.49**	0.40
Fourth quarter	**0.65**	0.51
	$1.71*	$1.23

**After extraordinary loss of 16 cents per share.*

Cash generated from operations was $28.4 million compared with $25.1 million the previous year.

Working capital

Working capital increased by 10% to $116.8 million during the year and the ratio of current assets to current liabilities at 1.98 to 1.00 was an improvement from 1.89 to 1.00 at the previous year-end.

Short term borrowings of $57.5 million at June 30, 1977 were only modestly higher than a year earlier despite the effects of inflation on inventories and receivables.

Fixed assets

Capital expenditures of $22.1 million were up $3.4 million over last year. Of this amount $12.9 million was spent in Canada on our continuing program to modernize and upgrade the Canadian manufacturing facilities. Capital expenditures for the new finishing plant of the Interlining Division in Monroe, La., for Swift Textiles in Columbus, Ga., and for other expenditures by DHJ in the United States and other countries, amounted to $9.2 million.

Despite the major cost reductions achieved in fiscal 1976, the Knit Division in the United States continued to operate at a loss. In view of this and the continuing uncertainty in the market, it was decided during the year to write off the present value of leases for knitting machinery and to fully amortize other

equipment relating to this operation. On an after-tax basis, and after applying the balance of a provision established by the Company for this purpose in prior years, the effect on consolidated results was an extraordinary loss of $1.2 million equal to 16 cents per share.

DHJ has an unrealized future tax benefit which has not been reflected as an asset in its accounts. The benefit results from the fact that losses incurred in prior years can be used to offset future taxable income. As the tax benefit is realized, it is applied against a fixed asset adjustment made on the acquisition of DHJ. The tax benefit realized for the year and so applied amounted to $2.1 million and the balance of the unrealized tax benefit at June 30, 1977 stood at approximately $5.4 million.

Long term debt

The net present value of leases shown as a long term obligation increased by $5.4 million to $10.0 million, due to the capitalization of the knitting equipment leases prior to their write off as referred to previously.

To finance the new finishing plant in Louisiana the Company arranged a bank term loan and assumed a mortgage on the building it acquired. At year-end, these obligations totalled $4.3 million.

Major progress was made during the year in reducing the Company's lease commitments. As a result of the purchase of the Monroe plant which was previously leased, the cancellation of certain other leases and the subletting of premises, the total future obligations for non-capitalized building and equipment leases was reduced substantially to $21.2 million from $40.0 million last year.

DHJ fulfilled all of its obligations during the past year under the terms of the agreement with its creditors.

The Company purchased $997,000 of its 5⁵/₈% Series A Debentures and $308,000 of its 6³/₄% Series B Debentures and has now accumulated $2,520,000 and $1,006,000 of Series A and B Debentures respectively in anticipation of future sinking fund requirements.

As described in Note 15 to the financial statements, on July 15, 1977 Dominion Textile Limited issued $12,000,000 of 10¹/₂% Series D Sinking Fund Debentures which mature in 1989.

Shareholders' equity

The return on average shareholders' equity was 11.1%, a distinct improvement over the 8.5% earned in fiscal 1976. Shareholders' equity of $124.2 million at year-end represented a net book value of $15.85 per share compared with $14.75 per share last year.

During the year $25,000 of the 5³/₄% Convertible Debentures were presented for conversion to 2,250 common shares bringing the total shares issued and outstanding to 7,810,812.

At the present time the Company's by-laws do not provide for the issue of any additional preferred shares. While there are no present plans to issue preferred shares, the Company believes that it would be in its best interests and that of its shareholders if the directors had the authority to issue such stock without incurring the delay necessitated by preparing for, and holding, a special meeting of the shareholders for that purpose. The flexibility to move quickly to take advantage of financial market conditions or possible business opportunities could prove advantageous. Accordingly the shareholders will be asked to sanction a new by-law at a special general meeting following the annual meeting. The by-law provides for an increase in the authorized capital of the Company by the creation of 3,000,000 Second Preferred Shares having an aggregate value not in excess of $30 million.

During the two-year period ended June 30, 1977 the market value of the Company's convertible shares traded on the Montréal and Toronto Stock Exchanges ranged as follows:

	1976-77		1975-76	
	High	**Low**	High	Low
July — September	**$9¹/₂**	**$8¹/₂**	$9¹/₄	$8¹/₄
October — December	**8¹/₂**	**7**	9¹/₄	7¹/₂
January — March	**7⁷/₈**	**6⁷/₈**	9³/₄	8³/₈
April — June	**8¹/₄**	**7¹/₄**	10	8¹/₈

The number of shares traded in 1976-77 was 1,072,126 compared with 996,356 shares in 1975-76.

Dividends of $0.60 per share ($0.15 quarterly) were paid during the past fiscal year. The Company has now paid a dividend on convertible or common shares each year for the past 70 years.

Dominion Textile Limited
and Subsidiary Companies

Consolidated Balance Sheet

as at June 30

	1977 (in thousands of dollars)	1976 (in thousands of dollars)
Current assets		
Cash	**$ 7,223**	$ 7,335
Accounts receivable	**80,993**	78,569
Inventories (Note 2)	**144,716**	136,727
Prepaid expenses	**3,019**	2,506
	235,951	225,137
Deduct:		
Current liabilities		
Short term borrowings (Note 3)	**57,539**	56,070
Accounts payable and accrued liabilities (Note 11)	**43,295**	46,251
Dividends payable	**1,170**	1,170
Income and other taxes	**8,580**	6,472
Long term debt due within one year	**8,582**	9,029
	119,166	118,992
Working capital	**116,785**	106,145
Investments and advances (Note 4)	**12,406**	11,249
Land, buildings and equipment (Note 5)	**112,709**	111,254
Unamortized debenture discount and expense	**311**	341
Other assets	**906**	1,469
Funds invested	**$243,117**	$230,458
Financed by:		
Long term debt (Note 6)	**$110,082**	$104,407
Minority shareholders' interest in subsidiary companies	**4,438**	2,866
Deferred income taxes	**4,433**	7,672
Shareholders' equity		
Capital stock (Note 9)	**20,888**	20,870
Retained earnings	**103,276**	94,643
	124,164	115,513
	$243,117	$230,458

On behalf of the Board:

Director

Director

Consolidated Statement of Income
for the year ended June 30

	1977	1976
	(in thousands of dollars)	*(in thousands of dollars)*
Sales	**$498,939**	$475,420
Costs and expenses		
Operating costs	**447,776**	427,140
Depreciation	**13,921**	14,201
Interest		
Long term debt	**6,212**	6,046
Other	**7,807**	7,842
	475,716	455,229
	23,223	20,191
Share in earnings of associated companies	**1,799**	863
Income from operations	**25,022**	21,054
Other income (Note 10)	**543**	1,291
Income before income taxes	**25,565**	22,345
Income taxes	**10,433**	8,841
	15,132	13,504
Gain (loss) on translation of foreign currencies	**1,133**	(2,743)
Minority interest	**(1,672)**	(1,163)
Net income before extraordinary item	**14,593**	9,598
Extraordinary item (Note 11)	**1,249**	—
Net income for the year	**$ 13,344**	$ 9,598
Per share, after preferred dividends (Note 13)		
Before extraordinary item	**$ 1.87**	$ 1.23
After extraordinary item	**$ 1.71**	$ 1.23

Consolidated Statement of Retained Earnings
for the year ended June 30

		1977	1976
		(in thousands of dollars)	*(in thousands of dollars)*
Retained earnings at beginning of year		**$ 94,643**	$ 89,751
Net income for the year		**13,344**	9,598
		107,987	99,349
Deduct:			
Dividends —			
7% Preferred		**25**	25
Convertible		**4,686**	4,681
per convertible share			
Class A	$0.60		
Class B	0.51		
Tax on Class B	0.09		
		4,711	4,706
Retained earnings at end of year		**$103,276**	$ 94,643

Consolidated Statement of Changes in Financial Position for the year ended June 30

	1977	1976
	(in thousands of dollars)	*(in thousands of dollars)*
Source of funds		
Net income for the year before extraordinary item	**$14,593**	$ 9,598
Depreciation	**13,921**	14,201
Deferred income taxes	**1,321**	1,985
Share in earnings of associated companies in excess of dividends received	**(1,390)**	(642)
Cash generated from operations	**28,445**	25,142
Increase in long term debt	**14,903**	8,436
Minority interests' share of earnings in subsidiaries, net of dividends paid	**1,524**	1,143
Proceeds on sale of fixed assets	**931**	1,895
Realization of tax benefit	**2,149**	670
	$47,952	$37,286
Use of funds		
Repayment of long term debt	**$ 9,228**	$13,685
Additions to fixed assets	**22,056**	18,702
Extraordinary item	**1,249**	—
Dividends	**4,711**	4,706
Other items — net	**68**	(303)
	$37,312	$36,790
Increase in working capital	**$10,640**	$ 496

Auditors' Report

The Shareholders,
Dominion Textile Limited.

We have examined the consolidated balance sheet of Dominion Textile Limited as at June 30, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1977 and the results of its operations and the changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Montréal, Québec
August 3, 1977

Notes to Consolidated Financial Statements

June 30, 1977

Note 1 — Accounting policies

The following summary of major accounting policies is presented to facilitate the interpretation of the financial statements.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of the Company and all its subsidiary companies, with provision for the interest of minority shareholders. All significant inter-company items are eliminated.

The acquisitions of all subsidiary companies are accounted for on a purchase basis and for subsidiary companies acquired prior to June 30, 1974 the net excess of the cost of the Company's investment over the aggregate net assets acquired has been written-off against retained earnings.

Subsequent to June 30, 1974, the Company acquired the shares of DHJ Industries Inc. and its assets and liabilities as at the date of acquisition (adjusted to appropriate carrying values as at that date) have been consolidated with those of the Company.

As at May 31, 1977 DHJ Industries Inc. has a balance of unrealized future tax benefit of approximately $5,400,000 arising from loss carry-forwards incurred prior to acquisition being available to reduce future income taxes otherwise payable. It is the intention of the Company to apply this credit when realized, to the extent necessary, to offset the adjustment to carrying values of DHJ Industries Inc. as at the date of acquisition. For the year ended May 31, 1977 the tax benefit of $2,149,000 has been so applied.

FOREIGN EXCHANGE

Current assets and liabilities in foreign currencies are converted at the exchange rates prevailing at the balance sheet dates. Fixed assets and long term liabilities are converted at rates prevailing at the dates of acquisition. Income and expenses in foreign currencies are converted at the actual exchange rates prevailing at the dates of transactions or at average exchange rates for the year.

CONSISTENCY

The accounting principles are consistently followed from year to year except for occasional changes to reflect improved accounting practices, in which case the effect of any material change is duly indicated.

INVENTORY VALUATION

Materials and supplies in inventories are valued at the lower of average cost and net realizable value. The cost of work in process and finished goods inventories includes raw materials, direct labour and certain manufacturing overhead expenses. Adequate provision is made for slow-moving and obsolete inventories.

MARKETABLE SECURITIES

Marketable securities are valued at average cost and when they are sold, the resulting gain or loss is included in net income.

INVESTMENTS IN ASSOCIATED COMPANIES

The investment in associated companies is carried at the Company's equity therein and the Company's share of the net income or loss of such companies is recorded in the period in which it is incurred.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at historical cost. Depreciation is provided on a straight-line basis at rates which amortize the cost of the assets over their economic life.

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in net income.

INCOME TAXES

The Company follows the tax allocation method of providing for income taxes. Under this method the amount of income taxes payable for the year may differ from the total income tax provisions as a result of timing differences between the recognition of expense for accounting and income tax purposes. The tax effect of these differences is reflected in the accounts as deferred income taxes.

PENSIONS

There are a number of pension plans for hourly-paid and salaried employees of the Company and its subsidiaries both of a contributory and non-contributory nature. All pension plans are trusteed and are being funded. The current service cost portion of these plans is absorbed in the period in which the service that gives rise to the entitlement is rendered. The unfunded past service pension liability is estimated to be $5,800,000 at June 30, 1977 and is to be amortized on a systematic basis.

Pension payments made to retired employees who are not covered by these plans are charged to operations when paid.

Note 2 — Inventories

	1977 *(in thousands of dollars)*	1976 *(in thousands of dollars)*
The main inventory classifications are as follows:		
Raw materials	**$ 38,625**	$ 33,535
Work in process, including grey fabric in bales for further processing	**47,535**	48,685
Finished goods	**50,287**	46,560
Supplies	**8,269**	7,947
	$144,716	$136,727

Note 3 — Short term borrowings

Bank borrowings of $930,000 by subsidiary companies are secured by assignment of accounts receivable.

Note 4 — Investments and advances

	1977 *(in thousands of dollars)*	1976 *(in thousands of dollars)*
Marketable securities — at average cost (market value 1977 — $4,265,000; 1976 — $4,451,000)	$ 3,934	$ 4,221
Investment in associated companies valued at equity	7,620	6,074
Other investments and advances — at cost	852	954
	$ 12,406	$ 11,249

Note 5 — Land, buildings and equipment — at cost

	1977 *(in thousands of dollars)*	1976 *(in thousands of dollars)*
Land and buildings	$ 96,014	$ 89,262
Machinery and equipment	217,408	215,432
	313,422	304,694
Less: Accumulated depreciation	200,713	193,440
	$112,709	$111,254

Note 6 — Long term debt

Dominion Textile Limited

	1977 *(in thousands of dollars)*	1976 *(in thousands of dollars)*
Secured		
$5\frac{5}{8}$% Sinking Fund Debentures, Series A due March 31, 1988		
Authorized and issued		
$32,000,000 less purchased for retirement Sinking Fund payments of $960,000 are due March 31 in each of the years 1978 to 1987. (The Company has purchased $2,520,000 principal amount of debentures in anticipation of these payments.)	$ 21,800	$ 22,797
$6\frac{3}{4}$% Sinking Fund Debentures, Series B due April 15, 1990		
Authorized and issued		
$12,500,000 less purchased for retirement Sinking Fund payments of $375,000 are due April 15 in each of the years 1978 to 1989. (The Company has purchased $1,006,000 principal amount of debentures in anticipation of these payments.)	9,244	9,552
Term note due 1979 to 1983 (US $4,100,000) Interest at 7% Secured by Series C Collateral Debenture	4,152	3,296
Term note payable 1978 to 1980 Interest at $\frac{3}{4}$% above prime Secured by Series C Collateral Debenture	3,404	3,245
Other mortgages and secured loans	2,391	2,397
The debentures are secured by a floating charge on all the assets (except real and immovable properties) of the Company and certain subsidiaries.		
Unsecured		
$5\frac{3}{4}$% Convertible Debentures due October 12, 1992		
Authorized and issued $15,000,000 less conversions to date	14,739	14,764
Seven year term note, due 1978 to 1982, at interest rates which fluctuate with changes in the New York prime rate or the London Inter-Bank rate at the Company's option. The average interest rate in effect at June 30, 1977 was 6.96% (US $9,500,000)	9,783	10,298
$9\frac{1}{2}$% term note, due 1978 to 1984	2,175	2,400
	67,688	68,749
Deduct: Amounts due within one year — included in current liabilities	2,456	1,441
	$ 65,232	$ 67,308

DHJ Industries Inc. and other foreign subsidiaries	1977 (in thousands of dollars)	1976 (in thousands of dollars)
Subject to agreements with creditors (See below)		
Term notes payable to banks and insurance companies No repayment of principal through May 1978. Interest payable at 2% per annum. Secured by a second charge on the shares of certain subsidiaries.	$ 19,025	$ 19,025
Trade Creditors Payable in instalments to November 1978 without interest.	4,150	6,745
5% term note due 1978	430	522
Term note payable 1978 Interest at prime rate	764	1,133
Term note payable 1978 to 1983 Interest at 7.9%	433	427
Term note payable November 1978 Interest at 2% above prime rate	1,754	2,935
Term note payable November 1978 Interest at 3% above prime rate Secured by a first charge on the shares of certain subsidiaries	4,500	2,057
Term note payable 1978 to 1979 Interest at 2% above prime rate	2,462	4,455
Term note payable 1978 to 1983 Interest at 1½% above prime rate	1,958	—
Mortgage payable 1978 to 1993 Interest at 9½%	2,345	—
Net present value of leases payable 1978 to 1985 Interest at average rate of 9%	10,048	4,607
Other long term liabilities	3,107	2,781
	50,976	44,687
Deduct: Amounts due within one year — included in current liabilities	6,126	7,588
	44,850	37,099
Total long term debt	$110,082	$104,407

DHJ Industries Inc. entered into certain agreements with its creditors which extended the terms of payment on a substantial portion of its outstanding indebtedness. The provisions of these agreements impose certain restrictions on DHJ Industries Inc. and require that it:

1) maintain working capital and net worth above certain minimum levels,
2) maintain the ratio of debt to net worth within prescribed limits, and
3) limit operating losses (defined to exclude most non-cash charges) which may be incurred by the operations of DHJ Industries Inc. and certain subsidiaries in the United States.

Dominion Textile Limited has the option of making additional convertible subordinated loans to DHJ Industries Inc. if necessary to maintain these requirements.

Note 7 — Leases

The total obligation for building and equipment leases which expire at various dates from 1978 to 1998 is $21,200,000. The maximum annual rental commitment in any one year is $2,500,000.

Note 8 — Contingencies

Notes receivable discounted by foreign subsidiaries amount to approximately $3,600,000. A foreign subsidiary has guaranteed obligations of certain affiliates to a maximum of $210,000.

In January 1977 an action was commenced against the Company, DHJ Industries Inc. and a third party by the former Chairman of the Board and the former President of DHJ who, following Dominion's acquisition of DHJ, had gone into a business competitive with DHJ. The complaint alleges that the Defendants violated anti-trust laws in connection with the sale and finishing of interlining material and further alleges what appears to be a libel in common law. The Plaintiffs are seeking punitive damages in the amount of $10,000,000 and unspecified treble damages. The action is in pre-trial discovery stage. The Company believes that it has meritorious defenses and will vigorously defend the action.

Note 9 — Capital stock

			1977 (in thousands of dollars)	1976 (in thousands of dollars)
7% Cumulative Preference				
Authorized — 4,306 shares $100 par value Outstanding — 3,487 shares (1976 — 3,546 shares)			**$ 349**	$ 355
Convertible — no par value				
Authorized — 22,500,000 Class A shares 22,500,000 Class B shares				
	1977	1976		
Issued — Class A shares	**7,461,885**	7,466,011		
— Class B shares	**348,927**	342,551		
	7,810,812	7,808,562	**20,539**	20,515
			$20,888	$20,870

(a) The Class A and Class B shares are voting, convertible into one another on a share for share basis and rank equally in all respects with the exception of the payment of dividends. The dividends on the Class B shares are paid out of "tax paid undistributed surplus on hand" or "1971 capital surplus on hand" as defined in the Income Tax Act. The Company can create "tax paid undistributed surplus on hand" by paying a 15% tax on a portion of its "1971 undistributed income on hand". To compensate for this tax, such dividends will be 15% less in amount than the equivalent Class A dividends. Canadian shareholders will not be required to include such dividends in their taxable income. A corresponding decrease in the cost base will increase capital gains on disposal of the shares.

(b) The Deeds of Trust and Mortgage relating to the Series A, Series B, Series C and the new Series D (Note 15 — Subsequent event) Debentures contain certain restrictions, customarily found in Deeds of this type, pertaining to the amount of long term debt which may be issued, the declaration or payments of dividends and the reduction of capital. At June 30, 1977 the amount of shareholders' equity not restricted under the terms of the Trust Deeds was $18,148,000.

(c) 1,326,510 of the authorized Class A and Class B shares are reserved for the possible conversion of convertible debentures at any time up to October 11, 1982.

Note 10 — Other income and (expenses)

	1977 (in thousands of dollars)	1976 (in thousands of dollars)
Income from marketable securities and other investments	**$ 242**	$ 253
Profit (loss) on sale of fixed assets and marketable securities	**(139)**	330
Royalties, commissions and other income	**440**	708
	$ 543	$1,291

Note 11 — Extraordinary item

Since acquisition of DHJ Industries Inc., the Company has curtailed and consolidated its knit operations in the United States. During this year it wrote off $4,449,000 net of tax, being the present value of knit machinery and other leases and fully amortized assets of low potential value. After giving effect to the $3,200,000 balance of the provision that was established for this purpose on acquisition, this write-off resulted in a $1,249,000 extraordinary loss.

Note 12 — Statutory information

Remuneration of Directors and Officers

	1977	1977 (in thousands of dollars)	1976	1976 (in thousands of dollars)
	Number	**Amount**	Number	Amount
As Directors of the Company	**11**	**$ 64**	11	$ 65
As Officers of the Company	**22**	**1,911**	23	1,623
Officers who are also Directors	**2**		3	

Note 13 — Earnings per share

If the 5¾% Convertible Debentures had been converted on July 1, 1976, the earnings per share before and after extraordinary item would have been $1.65 and $1.51 respectively for the year ended June 30, 1977.

Note 14 — Balance sheet excluding DHJ Industries Inc.

	1977 *(in thousands of dollars)*	1976 *(in thousands of dollars)*
Current assets		
Accounts receivable	**$ 53,351**	$ 53,143
Inventories	**109,269**	105,250
Other current assets	**2,898**	2,934
	165,518	161,327
Current liabilities		
Short term borrowings	**50,332**	43,555
Other current liabilities	**32,812**	33,261
	83,144	76,816
Working capital	**82,374**	84,511
Investments and advances	**26,544**	18,185
Land, buildings and equipment	**93,236**	87,871
Other assets	**311**	341
Funds invested	**$202,465**	$190,908
Financed by:		
Long term debt	**$ 69,631**	$ 67,308
Deferred income taxes	**8,670**	8,049
Minority interest	**—**	38
Shareholders' equity	**124,164**	115,513
	$202,465	$190,908

Note 15 — Subsequent event

On July 15, 1977 the Company issued $12,000,000 of 10½% Sinking Fund Debentures, Series D maturing July 15, 1989. The proceeds from this offering will be used to retire short term borrowings incurred to finance capital expenditures and for general corporate purposes.

Note 16 — Canadian anti-inflation legislation

The Company and its Canadian subsidiaries are subject to the anti-inflation legislation which became effective as from October 14, 1975 and limits increases in sales prices, remuneration, net earnings and dividends. It is the Company's opinion that the legislation has been adhered to since the effective date and further, that based on compliance tests, it has no material liability under the provisions of the Act.

Ten-year Review

Results for the year (in millions of dollars)	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Sales	**$498.9**	$475.4	$273.4	$336.2	$257.3	$228.0	$191.4	$167.8	$173.3	$172.2
Income (loss) before income taxes	**25.5**	22.3	12.3	33.1	15.8	14.2	8.0	4.8	3.3	(1.7)
Income taxes (credit)	**10.4**	8.8	5.2	14.3	7.0	7.0	3.7	1.5	(1.8)	(6.2)
Gain (loss) on translation of foreign currencies	**1.1**	(2.7)	—	—	—	—	—	—	—	—
Minority interest	**(1.7)**	(1.2)	—	—	—	—	—	—	—	—
Extraordinary item	**(1.2)**	—	—	—	—	—	.9	1.3	—	—
Net income for the year	**13.3**	9.6	7.1	18.8	8.8	7.2	5.2	4.6	5.1	4.5
Interest — Long term debt	**6.2**	6.0	3.2	3.0	3.0	2.4	2.7	2.9	3.1	3.2
— Other	**7.8**	7.8	5.1	5.0	2.6	2.2	2.4	2.7	2.3	3.4
Cash generated from operations	**28.4**	25.1	21.9	34.8	24.6	22.2	16.4	14.4	12.8	7.6
Additions to fixed assets	**22.1**	18.7	21.7	17.8	24.7	11.7	6.7	4.8	2.8	3.3
Depreciation	**13.9**	14.2	12.1	12.3	11.0	10.6	10.0	9.6	9.6	9.5
Year-end position (in millions of dollars)										
Working capital	**116.8**	106.1	105.6	84.1	67.6	54.7	52.3	48.5	47.4	45.2
Land, buildings and equipment — at cost	**313.4**	304.7	294.5	246.3	230.3	201.8	186.0	181.0	177.0	178.2
Long term debt	**110.1**	104.4	109.7	54.8	53.7	38.8	40.0	43.3	45.4	49.5
Shareholders' equity	**124.2**	115.5	110.5	108.3	93.6	88.3	85.8	84.2	81.6	78.2
Statistics per convertible share (in dollars)										
Net income	**1.71**	1.23	.91	2.40	1.12	.92	.66	.59	.64	.56
Cash generation	**3.64**	3.22	2.81	4.46	3.15	2.84	2.10	1.84	1.63	.96
Dividends	**.60**	.60	.60	.50	.37	.30	.27	.20	.20	.27
Book value	**15.85**	14.75	14.13	13.82	11.92	11.24	10.91	10.70	10.31	9.87
Other statistics										
Working capital ratio	**1.98**	1.89	1.85	2.07	1.89	1.85	2.03	2.04	2.03	1.90
Net income as a percentage of sales	**2.7**	2.0	2.6	5.6	3.4	3.2	2.7	2.8	2.9	2.6
Net income as a percentage of average shareholders' equity	**11.1**	8.5	6.5	18.6	9.6	8.3	6.1	5.6	6.4	5.8
Number of shareholders	**5,735**	6,002	6,264	6,218	6,371	5,757	6,602	6,947	7,128	7,098

Plants and Subsidiary Companies

APPAREL FABRICS DIVISION

Greige fabric plants

Domil, Sherbrooke, Québec
Gordon McD. Shaw, Manager
Polyester/combed cotton blend fabrics for shirtings, uniforms, rainwear, tablecloths and dress prints

Drummondville, Drummondville, Québec
Oscar J. Paquette, Manager
Cotton flannels, ducks, denim and industrial fabrics

Gault, Valleyfield, Québec
Gordon Largy, Manager
Cotton and polyester/cotton blend fabrics for sportswear, work clothing, pocketings, draperies and industrial fabrics

Long Sault, Long Sault, Ontario
Bernard Hamel, Manager
Polyester/combed cotton blend fabrics for broadcloth shirtings, uniforms, rainwear and sportswear

Magog, Magog, Québec
Roger Bouchard, Manager
Cotton and polyester/cotton blend fabrics for dress and nightwear prints, tickings, home furnishings and industrial fabrics

Richelieu, St. Jean, Québec
Marc Théberge, Manager
Cotton and polyester/cotton blend fabrics for sportswear, work clothing, casement sateens, pocketings, interlinings and dress prints

Converting and finishing plants

Magog Finishing Plant, Magog, Québec
Jacques St-Onge, Manager — Apparel Plant
Bleaching, dyeing, printing and finishing; cotton, blend fabrics, corduroy and denim

Beauharnois Finishing, St. Timothée, Québec
A. Richard Tremaine, Manager
Bleaching, dyeing and finishing; cotton and blend fabrics

CONSUMER PRODUCTS DIVISION

Greige fabric plants

Caldwell, Iroquois, Ontario
Roland Johnson, Manager
Terry towels, towelling and bath mats

Sherbrooke, Sherbrooke, Québec
Raymond Nicol, Manager
Polyester/cotton sheeting for sheets, pillow slips, comforters and bedspreads

Montmorency, Montmorency, Québec
Reynald Leduc, Manager
Mop yarns, cotton sales yarn and twines; cotton and blend flannelette blankets; industrial greige cloth, towellings

Esmond Division, Granby, Québec
Frank H. Boone, Vice-President and General Manager
Woven and non-woven blankets, bedspreads and draperies

Converting and finishing plant

Magog Finishing Plant, Magog, Québec
Robert L. Cooney, Manager — Consumer Plant
Sheets, pillow slips, towels and blankets

SALES YARN DIVISION

Combed and carded; cotton, man-made and wool; natural, bleached and dyed

Domil, Sherbrooke, Québec
Camille Beaulieu, Manager

Long Sault, Long Sault, Ontario
Gaston Morneau, Manager

St. Anns, Montréal, Québec
André Giroux, Manager

Salaberry, Valleyfield, Québec
Jos. E. Huot, Manager

Tremont, Montréal, Québec
Paul É. Boudreault, Divisional Manufacturing Manager

Mount Royal Dyehouse, Montréal, Québec
Alphonse G. Kelada, Manager

INDUSTRIAL FABRICS DIVISION

Drummondville, Drummondville, Québec
Oscar J. Paquette, Manager
Woven filament and steel tire fabrics; ducks for conveyor belting and industrial hose; treated cords for V-belts

Yarmouth, Yarmouth, Nova Scotia
André Trachy, Manager
Woven fabrics of cotton and man-made fibres for the coating trade, automotive, buff and filter use; ducks for tarpaulins, conveyor belting and industrial hose, and industrial yarns

Fiberworld, Hawkesbury, Ontario
Marcel Dubé, Manager
Regular and needle-punched polypropylene carpet backing; polyolefin industrial fabrics

Jaro Nonwovens, Woodstock, Ontario
Harold Hargreaves, General Manager
Resin bonded and needle-punched non-woven fabrics of man-made fibres for the coating trade, furniture and filter use, quilting and apparel manufacturing

SUBSIDIARIES

DHJ Industries Inc., New York, New York

Thomas R. Bell, Chairman of the Board and Chief Executive Officer
Charles A. McCrae, President and Chief Operating Officer
Bert Schwarz, Executive Vice-President — Interlining Division
David Friedlander, Executive Vice-President — Knit Division
Norman H. Block, Executive Vice-President — Finance and Administration
Robert A. Lankenau, Vice-President and Treasurer
Charles T. Marth, Jr., Vice-President — Operations
Harry Krieger, Vice-President — Cut Linings
Morton H. Zisk, Vice-President and Director of Merchandising
Jon R. Running, Secretary
Joseph G. Salloum, Comptroller
Neil Felsen, Assistant Treasurer

Interlining and interfacing fabrics and die-cut linings, fusibles; plastic products — collar stays, supports, injection moldings; disposable hospital garments

Plants: Collierville, Tennessee; East Setauket, L.I., New York; Greenville, South Carolina; Ho-Ho-Kus, New Jersey; Plymouth, Massachusetts; Texarkana, Texas

DHJ Knitting and Finishing Co., Inc., Hickory, North Carolina
David Friedlander, Vice-President and General Manager
Doubleknit fabrics

Swift Textiles, Inc., Columbus, Georgia
John A. Boland, Jr., President
Indigo-dyed denim

Ouachita Finishing Co. Inc., Monroe, Louisiana
Tom Cortese, Vice-President
Interlining fabrics wet finishing

DHJ Industries Europe S.A., Paris, France
William N. Gagnon, President and Director General
Interlining fabrics

Dubin-Haskell-Jacobson Distribution SPA, Milan, Italy
Renato Rivetti, President
Ercole Morino, Managing Director
Interlining fabrics and die-cut linings

DHJ Industries Deutschland GmbH, Bielefeld, West Germany
Dr. Ferdinand Langenkamp, Managing Director
Interlining fabrics and die-cut linings

Dubin-Haskell-Jacobson de Argentina, S.A.C.I., Buenos Aires, Argentina
O. Rafael Soler, President and Managing Director
Interlining fabrics and die-cut linings

DHJ Canadian Ltd., Montréal, Québec
Albert E. Wilcox, Vice-President and General Manager
Interlining fabrics

Affiliates: Austria, Botswana, Brazil, Chile, Colombia, France, Hong Kong, Italy, Japan, Malaysia, Mexico, Portugal, Singapore, South Africa, Spain, Taiwan, United Kingdom, Venezuela

Domil Industries Ltd., Montréal, Québec

Hubbard Dyers Division, Montréal, Québec
Claude Lemire, General Manager
Commission dyeing, finishing and transfer printing

Penmans Division, Paris and Brantford, Ontario; St. Hyacinthe, Québec
Robert E. Evans, President
Knit sportswear and underwear

Dominion Textile Company (U.K.) Limited, London, England

Barry J. Robinson, Director
Company's selling agent for United Kingdom and Europe

Howard Cotton Company, Memphis, Tennessee

Herman F. Riddle, President
Cotton merchants, buyers, shippers, exporters, agents

Directors

Jean Béliveau, Montréal
Vice-President
Club de Hockey Canadien, Inc.

*Thomas R. Bell, Montréal
President and Chief Operating Officer
Dominion Textile Limited

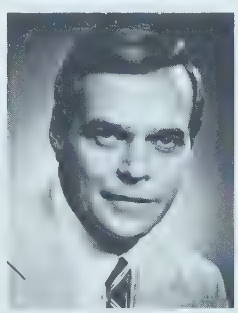
*J. Claude Hébert, Montréal
Chairman of the Board and Chief Executive Officer
Bombardier-MLW Ltd.

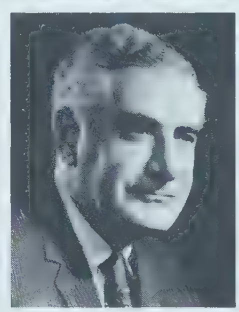
Roderick O. A. Hunter, Winnipeg, Manitoba
Company Director

Charles A. McCrae, New York, New York
President and Chief Operating Officer
DHJ Industries Inc.

*D. Ross McMaster, Q.C., Montréal
Partner
McMaster, Minnion, Patch, Hyndman, Legge, Camp & Paterson

Cal. N. Moisan, Montréal
President and General Manager
Standard Paper Box Ltd.





Arthur Pascal, CM, Montréal
Executive Vice-President
J. Pascal Limited

*Ronald H. Perowne, Montréal
Chairman of the Board and Chief Executive Officer
Dominion Textile Limited

David F. Sobey, Stellarton, Nova Scotia
President
Sobeys Stores Limited

Kenneth A. White, C.D., Montréal
President and Chief Executive Officer
The Royal Trust Company

*Member of the Executive Committee

Officers

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Chairman of the Board and Chief Executive Officer

Thomas R. Bell
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Arthur P. Earle
Group Vice-President

Harry Braid
Vice-President, General Manager — Consumer Products Division

Alex R. McAslan
Vice-President, General Manager — Industrial Fabrics Division

William A. McVey
Vice-President, General Manager — Apparel Fabrics Division

Robert M. Wilson
Vice-President, General Manager — Sales Yarn Division

Francis P. Brady, Q.C.
Vice-President, General Counsel

Hubert Chatelois
Vice-President — Manufacturing, Industrial Fabrics Division

Allan R. Evans
Vice-President — Marketing, Sales Yarn Division

Ilay C. Ferrier
Vice-President — Finance

William N. Gagnon
Vice-President

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George H. Hughes
Vice-President — Operation Services, Consumer Products Division

Robert W. Kolb
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Comptroller

Laurie W. Alnwick
Assistant Treasurer

AR42

La station d'épuration de Magog

The Magog waste treatment facility

dominion textile limited limitée

La station d'épuration . . .
une réalisation de $4 millions!

En 1971, la direction de Dominion Textile Limitée annonçait la construction d'une station d'épuration des eaux industrielles des plus modernes pour desservir ses usines de Magog. Cette réalisation a amené un déboursé de près de $4 millions, sans qu'aucune participation gouvernementale n'intervienne dans le financement. Évidemment, avant que les travaux de construction ne débutent, des mois de recherches et de planification se sont écoulés. Mais Dominion Textile a respecté son engagement.

Le gouvernement provincial dans ses normes à l'industrie textile avait posé le 31 décembre 1975 comme date limite des installations de lutte contre la pollution de l'eau et voici que six mois plus tôt, la station d'épuration des eaux usées de Magog procédait au traitement de ses premiers gallons d'eau industrielle.

The waste treatment facility . . .
A $4 million project!

In 1971, Dominion Textile management announced the start of a modern day waste treatment facility to serve the company plants at Magog. This was a $4 million capital expenditure project without any financial participation from the government sources at any level. Before construction started, of course, there had to be long and detailed research and planning.

Dominion Textile met its commitment and well within the necessary deadline. The water standards for the textile industry as set by the provincial government called for December 31, 1975 as the deadline for all water purification installations. Six months ahead of this date, the Magog waste treatment facility was processing its first gallon of industrial waste water.

Un peu d'histoire

Dominion Textile Limitée procédait le 21 juin 1974 à la première pelletée de terre marquant le début officiel des travaux de construction de la station d'épuration des eaux usées.

La cérémonie s'est déroulée sur l'emplacement des futures installations et elle a été présidée par le ministre de l'Environnement de la province de Québec, le docteur Victor Goldbloom, en présence de représentants de la cité de Magog et de la compagnie.

Cette station de traitement des eaux industrielles devait devenir la seconde phase du programme global de purification des eaux usées, entrepris par Dominion Textile depuis 1971 à Magog, et constituait le premier investissement du genre à être entrepris par une compagnie textile au Québec, depuis l'établissement des normes des services de protection de l'Environnement de la province.

De plus, on se souviendra que Dominion Textile avait déjà mérité un prix d'excellence accordé par l'Association québécoise des techniques de l'eau pour le système d'épuration des eaux industrielles installé à son usine de finition Beauharnois, construite en 1966, soit avant même que les normes du gouvernement ne soient émises.

La station d'épuration de Magog comprend trois phases importantes.

A bit of history

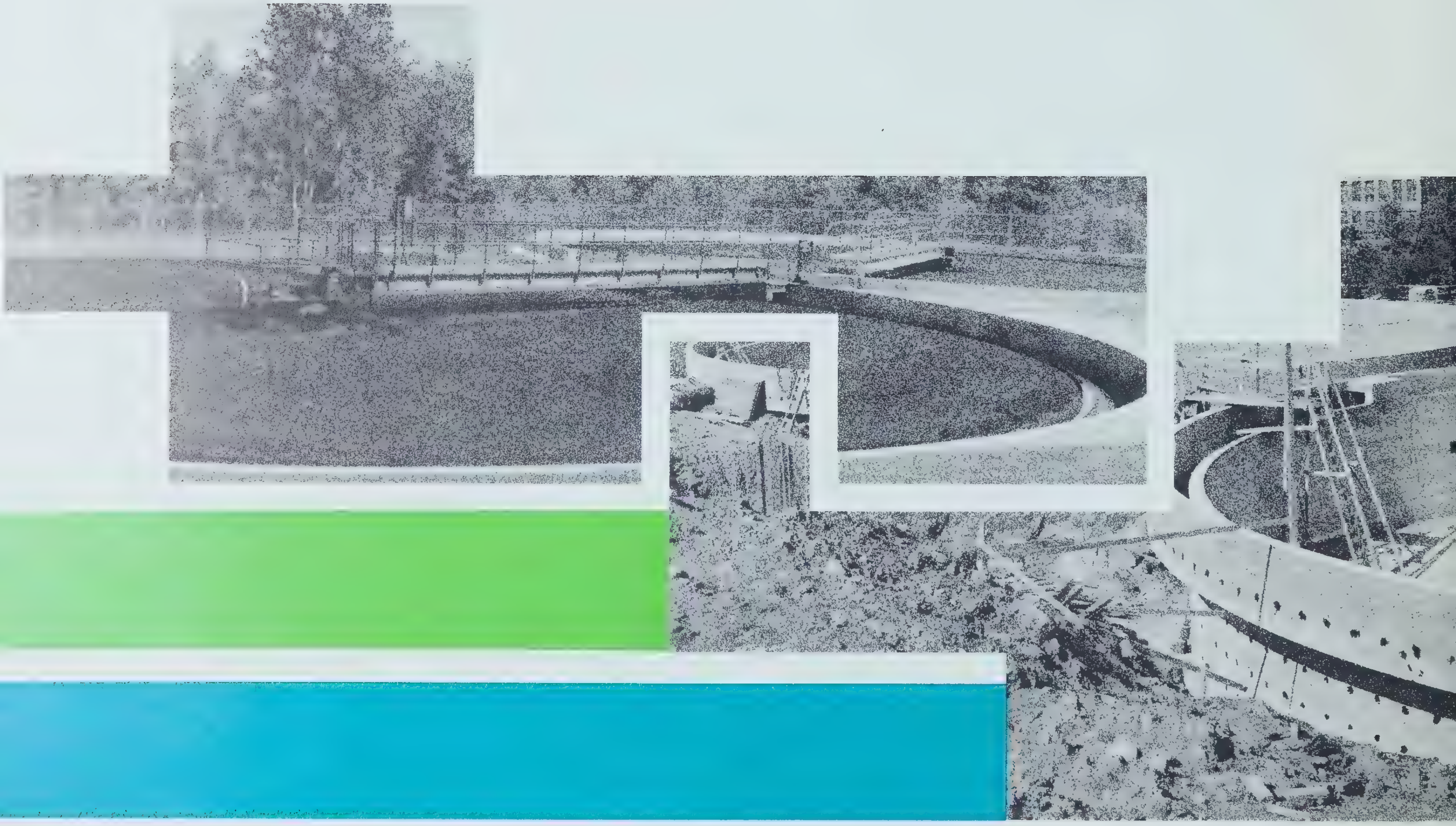
Dominion Textile Limited held a ground-breaking ceremony for the Magog installation on June 21, 1974 marking the beginning of construction of a modern waste treatment system at its Magog plants.

The ceremony took place in the presence of representatives of both provincial and municipal governments.

The construction of the waste treatment system represents a major capital expenditure of $4 million and the first to be undertaken by a textile company in Québec, since the setting of standards by the Environmental Protection Services of the Province.

An earlier water treatment system at the company's Beauharnois Plant, built before government standards were called for, won Dominion Textile an award of excellence issued by the "Association québécoise des techniques de l'eau".

The Magog waste treatment facility encompasses three major phases.



PHASE I

Cette première phase complétée à la mi-septembre 1972 comportait la construction de deux bassins dans lesquels se déversent les égouts industriels et sanitaires de l'usine de finition et de l'usine de tissage Magog, permettant ainsi la vérification du débit d'eau et l'analyse sur la nature et la quantité de déchets industriels.

Le projet comprenait également l'aménagement d'un système de pompage qui amène ces égouts industriels et sanitaires à l'un ou l'autre des bassins. Avant la réalisation de cette phase "I", des étapes préliminaires avaient déjà été franchies dans le cadre du programme de purification des eaux usées de la compagnie. Mentionnons, entre autres, les travaux suivants:

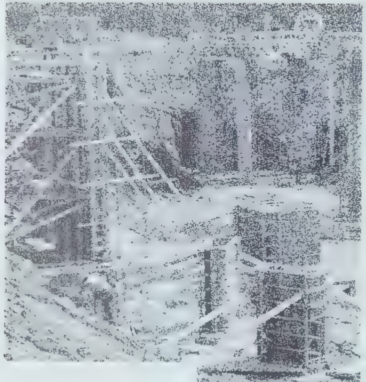
- étude par des ingénieurs-conseil sur la nature des eaux usées et l'aménagement en laboratoire d'une usine pilote pour préciser le type de traitement nécessaire à Magog;
- aménagement d'un laboratoire dans l'usine même pour l'analyse des eaux usées;
- à l'intérieur de l'usine, modifications aux procédés d'impression pour empêcher le déversement des encres dans la rivière;
- travaux pour permettre le recyclage des résines et de l'empois utilisés dans la finition des tissus.

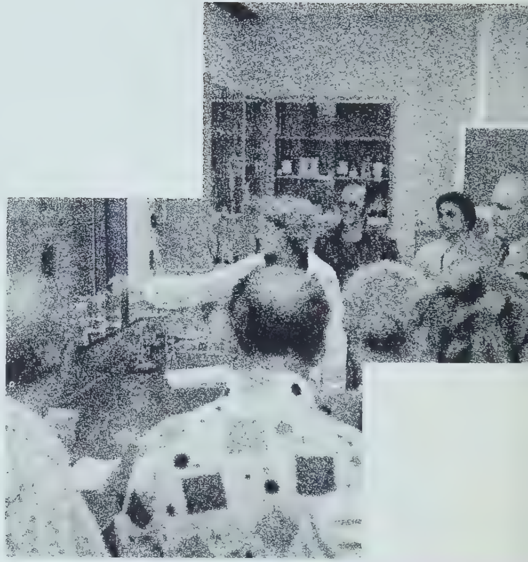
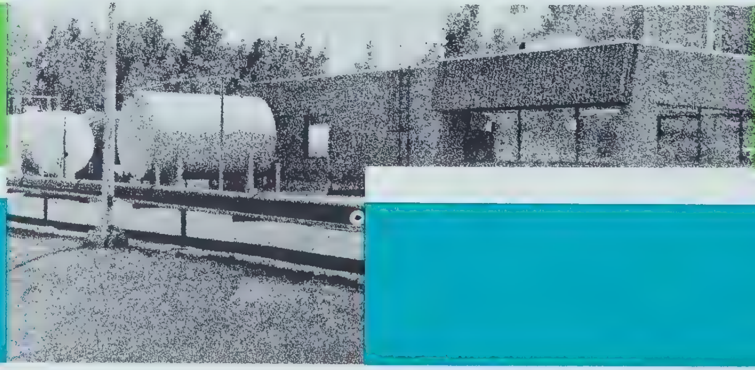
PHASE I

The first step completed by mid-September 1972 consisted in the construction of two sewer stations which collect all of the industrial and sanitary waste water from the Magog complex, permitting more accurate measurement of flow and chemical analysis.

The project also included the completion of piping and pumping work to bring the industrial waste water into the sewer collectors, and prior to this phase "I" several projects were already accomplished with regard to the company's program for water purification. Among these were:

- consulting engineering work with regard to waste effluents and the construction of a pilot plant-laboratory to determine specific needs;
- construction of a laboratory, at the Magog plant, to analyse waste effluents;
- process modifications to prevent the discharge of used printing inks;
- recycling of resins and starches used in the finishing of textile goods.



PHASE II

En janvier 1974, M. R. H. Perowne, alors président de Dominion Textile Limitée, annonçait les plans détaillés de la station d'épuration des eaux usées et six mois plus tard la compagnie commençait ses travaux de creusage. À cette époque, les plans et devis soumis par la compagnie avaient au préalable été approuvés par les services de protection de l'Environnement de la province de Québec.

La station d'épuration maintenant en activité tient compte des plus récentes innovations technologiques quant à l'épuration biologique des eaux usées et sa capacité est de plus de 5 millions de gallons par jour.

Elle comporte des stations de pompage, un bassin d'aération muni d'aérateurs de surface, des bassins de décantation, des réservoirs et des systèmes d'alimentation en nutrients, des conduites pour relier les différentes unités de l'usine de traitement, des pièces d'équipement de mesure et un bâtiment de contrôle. Le tout est situé à proximité des usines Magog dans un environnement boisé.

Cette station d'épuration des eaux résiduaires permet à la compagnie de rencontrer les normes gouvernementales prescrites par les services de protection de l'Environnement de la province de Québec à l'industrie textile quant à la demande biologique et chimique en oxygène, l'alcalinité et les solides en suspension, les contenus huileux et graisseux.

PHASE II

In January 1974, R. H. Perowne, then President of Dominion Textile Limited, announced that the construction of a waste treatment facility was determined and in June ground was broken on the project. Plans submitted by the company were already approved by the Environmental Protection Services of the Province of Quebec before construction could be started.

This waste treatment facility now in operation includes the latest technological developments in the biological treatments of liquid waste, and has a capacity of more than 5 million gallons per day.

It consists of pump houses, an aeration basin equipped with mechanical aerators, clarifiers, nutrients storage tanks, seeding systems, the necessary pipelines to link the various units, measuring equipment and a control building.

This facility is located near the Magog plants in a wooded environment.

This waste treatment plant allows the company to meet the standards for waste treatment established by the Environmental Protection Services of the Province of Quebec for the textile industry. These government standards include specifications for biological and chemical oxygen demand, alkalinity content, suspended solids, oils and grease contents.

PHASE III

La phase III consiste à faire disparaître les boues qui ont été séparées des eaux usées. En partie, ces boues sont réutilisées pour ré-alimenter le bassin d'aération en bactéries, mais après un certain temps, elles s'usent et doivent être déposées en terrain vague pour assèchement ou tout simplement incinérées. Cette troisième phase est encore à l'étude et commandera sans doute un autre déboursé de $600,000.

Les services de protection de l'Environnement décrivent la station comme l'une des plus importantes dans le domaine des textiles au niveau de la province. Ils affirment qu'elle a été conçue en fonction des directives des services de protection de l'Environnement et qu'elle fait également suite à des recherches poussées et à de nombreuses analyses sur la qualité des eaux industrielles des usines Magog au cours des dernières années.

PHASE III

Phase three consists of sludge disposal. After being re-utilized as bacterial nourishment in the aeration basin, sludge has to be dewatered and disposed of by way of incineration or simply accumulated on a waste ground. The disposition of sludge is now under study and it is expected that the added cost will be approximately $600,000.

The Environmental Protection Services describe the project as the largest one in the Province of Quebec for the textile industry. They note that it has been specifically designed to meet the requirements of the Environmental Protection Services and that it follows a long series of elaborate research and analysis studies on industrial liquid waste at the Magog plant carried out over a number of years.

Principales caractéristiques

Bassin d'aération:	• oxygénation des eaux usées • alimentation en bactéries
Nombre d'aérateurs:	8
Dimension:	145 x 295 pieds
Profondeur:	22 pieds
Contention:	3,600,000 gal.
Capacité de traitement:	5,000,000 gal. par jour
Retention:	20 hres

Bassin de décantation:	• séparation et récupération des solides en suspension
Diamètre:	100 pieds
Profondeur:	12 pieds
Contention:	1,170,000 gal. chacun
Capacité de traitement:	3,300,000 gal./jour chacun
Récupération des boues:	1,700,000 gal./jour chacun

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Dominion Textile Limitée

Mai 1977

Major characteristics

Aeration lagoon:	• waste water oxygenation • bacterial nourishment
Nb. of aerators:	8
Dimension:	145 x 295 ft.
Depth:	22 ft.
Content capacity:	3,600,000 gal.
Treatment capacity:	5,000,000 gal./day
Retention capacity:	20 hrs

Clarifier basins:	• separation and recovery of sludges
Diameter:	100 ft.
Depth:	12 ft.
Content capacity:	1,170,000 gal. each
Treatment capacity:	3,300,000 gal./day each
Sludge recovery:	1,700,000 gal./day each

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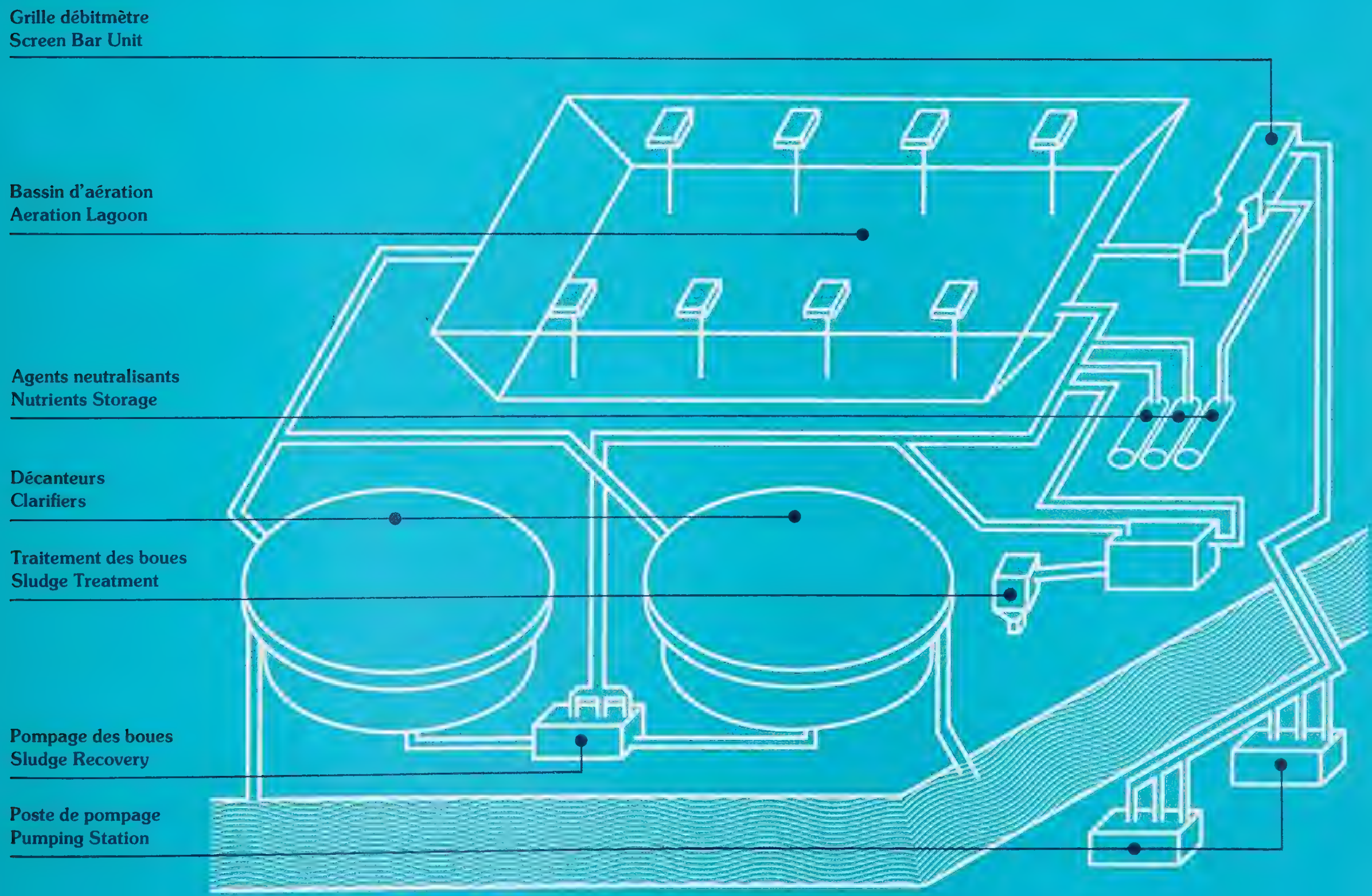
May 1977

H&Y



Grille débitmètre
Screen Bar Unit
Bassin d'aération
Aeration Lagoon
Agents neutralisants
Nutrients Storage
Décanteurs
Clarifiers
Traitement des boues
Sludge Treatment
Pompage des boues
Sludge Recovery
Poste de pompage
Pumping Station

LITHO CANADA

dominion textile limited

HIGHLIGHTS OF THE
1977 ANNUAL AND
SPECIAL GENERAL
MEETING
and
INTERIM REPORT
for the three months
ended September 1977

Texmade

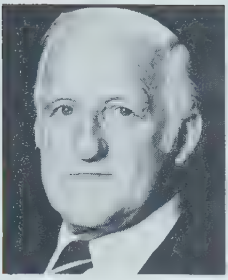
CONTENTS

Chairman Ronald H. Perowne's Address to the Shareholders	1
First Quarter Results	6
Statement of Income and Statement of Changes in Financial Position	8, 9
Directors, Auditors and Officers	10

By-law XLIX

At the Special General Meeting of Shareholders held on 19 October 1977, By-law XLIX was sanctioned by a vote of 5,279,852 shares in favour, with 23,388 shares against.

ADDRESS TO SHAREHOLDERS



Ronald H. Perowne
Chairman of the Board

Last year, when speaking to our shareholders at the Annual Meeting, I stated that the Company's management was acutely aware of the necessity to increase earnings and I said that with any breaks I felt we would improve on the earnings performance of the previous year.

As you have learned from the published figures, we did improve our earnings — from $1.23 per share to $1.71, which figure would have been $1.87 if it were not for the extraordinary write-off associated with our doubleknit operations in the United States. These results represent the second highest earnings in the Company's seventy-two year history.

In our 1977 Annual Report to shareholders we dealt with the principal factors which had a bearing on the year's results. I would, however, like to take a few minutes to emphasize and further underline certain aspects of the Company's performance which I believe are significant to our shareholders and to tie this in with the outlook for the current fiscal year.

Highlights

The vastly improved earnings were achieved despite short-time operations in a number of our plants both here and in the United States. As we all know, the Canadian economy generally has been and remains in the doldrums. In textiles in particular, world markets were something less than buoyant throughout most of last year.

For the first time in our corporate life, a significant portion of our consolidated earnings was attributable to operations outside Canada. In fact, including foreign exchange translation gains, over 30% of our net income for the year was derived outside Canada.

We have, therefore, not only broadened our earnings base but we also have the plant capacity in place with the potential to make further substantial strides as market conditions improve. At this particular juncture I cannot state with assurance that certain present signs of improvement in our trade will be anything more than temporary. I can assure everyone, however, that in most areas our finished goods inventories are on the lean side and any buying momentum should very quickly result in increased activity in our plants.

We believe we are about to start feeling some positive effects from the Federal Government's decision, as announced by the Hon. Jean Chrétien last November, to reduce garment imports to 1975 levels. There have been such massive quantities of imported garments in the distribution and retail pipelines, during a recessionary economy, that it has taken nearly a full year to get the first indication of some positive hope for domestic manufacturers.

Permit me to digress from my main theme to comment that despite alarming predictions in some quarters that apparel prices would increase dramatically once quotas were imposed, such has not been the case. Since apparel quotas were announced in November 1976, clothing price increases at 5.0% have been significantly lower than the overall increase of 6.8% in the Consumer Price Index and well below the major components of the index such as food 11.2%, and housing, 6.0%. As to the price index for the domestic primary textile industry it has increased only 4.1% in this period versus a 6.6% increase for all manufacturing combined.

Outlook

Now, back to Company performance and outlook.

As mentioned in the Annual Report, we changed the organization structure of the Canadian operating company during the year. We sub-divided it into four divisions and realigned several of the smaller subsidiary companies with those major divisions in the same type of business. This is contributing to improved results and will do so on an increasing basis. The individual divisions each represent a profit centre and they are, in effect, competing with one another for capital and other resources on the basis of their respective performances. There is more opportunity for a greater number of people

to exercise their talents more fully and to become better managers.

Under today's business conditions we must not use and tie-up as much capital in receivables and inventories as we have in the past. The challenge we have given each of our General Managers and his team, is to improve the return on the capital employed in his division's operations and we are confident that our shareholders will see an improvement in this area.

The major capital expenditure programs completed during the past couple of years which primarily involved the Magog, Caldwell and Mount Royal plants, are each making the contribution intended. In our continuing quest to rationalize and update our manufacturing facilities we have recently commenced work on the $8.5 million denim project in the Drummondville and Magog Finishing plants. Full production should be on stream towards the end of this fiscal year. We are fortunate to be able to draw on the skills and experience of the management of our subsidiary Swift Textiles in Columbus, Georgia, recognized as one of the world leaders in the production of indigo-dyed denim.

In view of the widely publicized statements that demand for denim is on the decline the question might be asked why we are embarking on a capital expenditure program to produce denim in Canada.

Certainly world supply and demand for denim are much more balanced than they were a few years ago. As a result, low quality and lightweight-fashion denim has suffered from reduced demand in the last year. However, we intend to make top quality heavyweight denim for the jeans trade in Canada and we are convinced that this type of denim will remain a high volume staple fabric for many years to come.

We have now signed two-year collective labour agreements with employee representatives at nineteen of our plants and there now remain only three contracts to be settled. All of the settlements were within the guidelines established by the Anti-Inflation Board and were reached without work interruption except for our Esmond plant which was closed for approximately six weeks because of strike action. The wage settlements are extremely costly. They place us further out of line with textile plants in the United States and the burden of overhead is now such that no plant can withstand any prolonged period of inactivity and survive profitably. Average hourly earnings in our plants during 1978 will exceed $5.00 per hour.

DHJ Industries Inc.

Let me now make a few comments about DHJ. As was stated in the Annual Report, the directors were very pleased with the contribution to earnings from DHJ and its affiliated companies. These earnings more than offset an earnings decline in our Canadian operations and they too were achieved despite operating at less than capacity.

However, DHJ's fortunes at the present time are too dependent on the performance of Swift Textiles, which has been excellent and is expected to continue so.

DHJ's International Division, which is mainly involved in the field of interlinings, also made a significant contribution to earnings and has provided us with important relationships in textile markets throughout the world.

The Interlining Division in the United States has not performed as we had expected. However, with its new finishing plant just coming on stream in Monroe, Louisiana, we look for a definite improvement in the Division's performance. As the plant settles down we expect consistency of product quality to surpass anything in the industry. These manufacturing facilities have the technology to permit concentrated sales efforts in sectors of the apparel industry additional to the shirting trade, where sales have been largely confined in the past.

We do not anticipate any contribution to earnings in the near term from the depressed Knit Division of DHJ, but we do expect losses to be substantially reduced as a result of the extraordinary write-off made last year.

The acquisition of DHJ some two and a half years ago added a significant amount of long term debt to the consolidated balance sheet of the Company. Consequently, restoring the ratio of consolidated long term debt to equity to more appropriate levels has a high priority. While we have made progress in this direction we still have a long way to go. In short, we must strive to get our debt down and equity up.

Capital spending is being closely controlled and, as I mentioned earlier, inventories and receivables are under ever closer scrutiny in our efforts to reduce the debt levels and to enhance our profitability. DHJ has met all of its obligations under the Creditors Agreement which will be concluded in November 1978 and plans are

presently being formulated to refinance the deferred portion of DHJ's debt over a longer term in keeping with its anticipated cash flow.

On the equity side, I believe the current market price of our stock is too low. Dominion Textile's stock is undervalued and is unduly penalized by a combination of current stock market lethargy and bias against Québec-based companies. If Dominion Textile's shares traded just at the average price-earnings multiple of the stocks that make up the Toronto Stock Exchange "300 Index", or even at the average dividend yield for the "300 Index", the shares would be selling at about $12.00 to $14.00 rather than at their present level.

The Board of Directors considers dividend policy on a regular basis and is mindful of the fact that there has been no increase since March 1974.

It must be remembered that the direction of the Company was changed dramatically in May 1975 to open up new growth opportunities. Evidence of the wisdom of that move is reflected in the results for the past year. However, DHJ must be considered a long term investment and I caution that its financial position must be substantially stronger before we can expect any cash to be available from that source to pay dividends.

We must also keep in mind that foreign exchange translation gains simply reflect an upward revaluation on paper of some of the Company's net foreign assets. The gain does not provide cash. Last year $1.1 million, or 8½% of our earnings, resulted from foreign exchange translation gains.

I do wish to assure shareholders that dividends will be increased the moment the directors are satisfied that the Company's cash needs are adequately provided for, and that there is reasonable expectation a new dividend level can be sustained for an extended period.

With regard to the political situation in the Province of Québec I would like to say this. Dominion Textile is a good corporate citizen in the Province of Québec and is anxious and willing to continue in this regard. The recent capital expenditures in Drummondville and Magog are evidence of this. Long ago we recognized the need to conduct our business with our plants in this province in the French language. There is no barrier to francophones in our management ranks — we have many. We also have a large number of fluently-bilingual anglophones among our senior

managers. We have Americans and Europeans in our Canadian operations and Canadians in our American and European operations. This is the kind of flexibility in its manpower resources we feel a Company like ours needs to survive in this tough business called textiles. We are now an international Company and over one-third of our sales are outside Canada. Most of our sales in Canada are outside Québec and only a fraction of what we sell in this province is sold to customers whose mother-tongue is French. You have all heard this kind of story before!

However, to come to the point, the Government of the Province of Québec has a very serious responsibility on its shoulders and it is this. In its zeal to correct some of the injustices of the past, in the fields of language and labour, it runs the risk of perpetrating injustices on other elements of the community. To what degree it has or has not done so, or will or will not do so, is each one's own personal opinion. We will try very hard to cooperate with the government but we also expect them to recognize the realities of running a business such as ours, and to not make our management jobs so difficult, or so unpleasant, that cooperation becomes impossible. And, clearly, Québec needs an economic climate attractive to capital.

On the Federal side, after months of hearings and study across Canada by the Textile and Clothing Board, a report was issued strongly supporting the contentions of the industry as to the damage done by the unduly high levels of imports. To achieve meaningful results the government must implement the Board's recommendations through a series of extended-coverage bilateral agreements with major supplying sources. If these agreements are of sufficiently long duration and are accompanied by effective administration, we should see our Canadian plants getting busy again.

It should be pointed out that while our measures in Canada have been months at the deliberation stage, the United States in a short period of time has already completed comprehensive textile agreements with major supplying nations such as South Korea and Hong Kong and is actively negotiating several others.

First Quarter Results

To conclude my remarks, I now wish to report on the earnings of our first quarter ended September

30, 1977. I am pleased to be able to report an increase in earnings over the same period last year. Earnings are 28 cents a share compared with 23 cents in the first quarter a year ago. Twenty-eight cents a share represents the highest first quarter earnings in the Company's history.

As to the factors underlying these results, the story is very much the same as it was last fiscal year. Results in our international operations were up, results in our Canadian operations were down and we continue to show exchange gains on translation of our U.S. assets.

This marks the seventh consecutive quarter in which the Company has improved its earnings over the same quarter a year earlier. We count our blessings that we have this kind of record behind us when, in the last two years, many other textile companies and other industries have suffered reverses. I wish I could stand here before you and say with certainty that the improvement will be maintained. There are just too many uncertainties for me to be able to say that. I can assure our shareholders that we are going to try very hard to sustain the momentum.

CONSOLIDATED STATEMENT OF INCOME
Unaudited

	THOUSANDS Three months ended September	
	1977	1976
Sales	**$116,238**	$114,159
Costs and expenses		
Operating costs	**106,399**	104,291
Depreciation	**3,229**	3,453
Interest		
Long term debt	**1,806**	1,514
Other	**1,136**	1,867
	112,570	111,125
	3,668	3,034
Share in earnings of associated companies	**374**	303
Income from operations	**4,042**	3,337
Other income	**198**	374
Income before income taxes	**4,240**	3,711
Income taxes	**2,001**	1,535
	2,239	2,176
Gain (loss) on translation of foreign currencies	**376**	(121)
Minority interest	**(459)**	(257)
Net income for the period	**$ 2,156**	$ 1,798
Per share, after preferred dividends	**$ 0.28**	$ 0.23

If the $5\frac{3}{4}\%$ convertible debentures had been converted on July 1, 1977, the earnings per share would have been $0.25 for the three months ended September 1977.

On behalf of the Board:

R. H. PEROWNE, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Unaudited

	THOUSANDS Three months ended September	
	1977	1976
Source of funds		
Net income for the period	**$ 2,156**	$ 1,798
Depreciation	**3,229**	3,453
Deferred income taxes	**(120)**	645
Share in earnings of associated companies in excess of dividends received	**(245)**	39
Cash generated from operations	**5,020**	5,935
Proceeds from issue of 10½% Sinking Fund Debentures, Series D	**12,000**	—
Increase in other long term debt	**954**	5,675
Minority interests' share of earnings in subsidiaries, net of dividends paid	**414**	216
Proceeds on sale of fixed assets	**24**	459
Realization of tax benefit	**1,255**	288
Other items — net	**20**	(331)
	$19,687	$12,242
Use of funds		
Repayment of long term debt	**$ 3,102**	$ 2,759
Additions to fixed assets	**5,025**	4,204
Dividends	**1,177**	1,177
	$ 9,304	$ 8,140
Increase in working capital	**$10,383**	$ 4,102

T. R. BELL, Director

DIRECTORS

The following Board of eleven directors was elected at the annual general meeting:

Jean Béliveau
*Thomas R. Bell
*J.-Claude Hébert
Roderick O. A. Hunter
Charles A. McCrae
*D. Ross McMaster, Q.C.
Cal N. Moisan
Arthur Pascal, CM
*Ronald H. Perowne
David F. Sobey
Kenneth A. White, C.D.

*Member of the Executive Committee

AUDITORS

Touche Ross & Co. were appointed auditors of the Company.

OFFICERS

At a meeting of the newly-elected Board of Directors held following the general meeting of shareholders, the following officers were elected or appointed:

Ronald H. Perowne, Chairman of the Board

Thomas R. Bell, President and Chief Executive Officer

Arthur P. Earle, Group Vice-President

Vice-Presidents, General Managers

Harry Braid — Consumer Products Division

Alex R. McAslan — Industrial Fabrics Division

William A. McVey — Apparel Fabrics Division

Robert M. Wilson — Sales Yarn Division

Vice-Presidents

Francis P. Brady, Q.C. — General Counsel

Hubert Chatelois — Manufacturing, Industrial Fabrics Division

Allan R. Evans — Marketing, Sales Yarn Division

Ilay C. Ferrier — Finance

William N. Gagnon

W. Hood Gambrell — Finishing Plants

George H. Hughes — Operation Services, Consumer Products Division

Robert W. Kolb — Development Research

Lawrence G. McDonough — Manufacturing, Apparel Fabrics Division

Clifton M. Beck — Secretary

Stephen J. Weir — Treasurer and Comptroller

Laurie W. Alnwick — Assistant Treasurer

ADMINISTRATEURS

Les onze membres du conseil d'administration élus lors de l'assemblée annuelle sont:

Jean Béliveau
*Thomas R. Bell
*J.-Claude Hébert
Roderick O. A. Hunter
Charles A. McCrae
*D. Ross McMaster, c.r.
Cal.-N. Moisan
Arthur Pascal, C.M.
*Ronald H. Perowne
David F. Sobey
Kenneth A. White, C.D.

*Membre du comité exécutif

VERIFICATEURS

Touche Ross & Cie ont été nommés vérificateurs de la compagnie.

DIRECTEURS

Au cours d'une réunion des membres du nouveau conseil d'administration tenue à la suite de l'assemblée générale des actionnaires, les personnes suivantes ont été élues ou nommées:

Ronald H. Perowne,
président du conseil

Thomas R. Bell,
président et chef de l'administration

Arthur P. Earle,
vice-président de groupe

Vice-présidents, directeurs généraux

Harry Braid — division des produits pour consommateurs

Alex R. McAslan — division des tissus industriels

William A. McVey — division des tissus pour vêtements

Robert M. Wilson — division des fils commerciaux

Vice-présidents

Francis P. Brady, c.r. — conseiller général

Hubert Chatelois — fabrication, division des tissus industriels

Allan R. Evans — mise en marché, division des fils commerciaux

Ilay C. Ferrier — finances

William N. Gagnon

W. Hood Gambrell — usines de finition

George H. Hughes — services à l'exploitation, division des produits pour consommateurs

Robert W. Kolb — recherches techniques

Lawrence G. McDonough — fabrication, division des tissus pour vêtements

Clifton M. Beck,
secrétaire

Stephen J. Weir,
trésorier et contrôleur

Laurie W. Alnwick,
trésorier adjoint

ETAT CONSOLIDE DE L'EVOLUTION DE LA SITUATION FINANCIERE

Non vérifié

EN MILLIERS Trois mois terminés en septembre	1977	1976
Provenance des fonds		
Bénéfice net de l'exercice	**$ 2,156**	$ 1,798
Amortissement	**3,229**	3,453
Impôts sur le revenu reportés	**(120)**	645
Excédent de la quote-part des bénéfices des compagnies associées sur dividendes reçus	**(245)**	39
Encaisse générée par l'exploitation	**5,020**	5,935
Produit de l'émission des obligations $10^1/_2$%, série D, à fonds d'amortissement	**12,000**	—
Augmentation des autres dettes à long terme	**954**	5,675
Quote-part des bénéfices des filiales revenant aux actionnaires minoritaires, déduction faite des dividendes versés	**414**	216
Produit de la vente d'immobilisations	**24**	459
Réalisation d'un avantage fiscal	**1,255**	288
Autres éléments — net	**20**	(331)
	$19,687	$12,242
Utilisation des fonds		
Remboursement sur la dette à long terme	**$ 3,102**	$ 2,759
Nouvelles immobilisations	**5,025**	4,204
Dividendes	**1,177**	1,177
	$ 9,304	$ 8,140
Augmentation du fonds de roulement	**$10,383**	$ 4,102

T. R. BELL, administrateur

ETAT CONSOLIDE DES RESULTATS
Non vérifié

	EN MILLIERS Trois mois terminés en septembre	
	1977	1976
Ventes	**$116,238**	$114,159
Coûts et dépenses		
Frais d'exploitation	**106,399**	104,291
Amortissement	**3,229**	3,453
Intérêts		
Dette à long terme	**1,806**	1,514
Autres	**1,136**	1,867
	112,570	111,125
	3,668	3,034
Quote-part des bénéfices des compagnies associées	**374**	303
Bénéfice d'exploitation	**4,042**	3,337
Autres revenus	**198**	374
Bénéfice avant impôts sur le revenu	**4,240**	3,711
Impôts sur le revenu	**2,001**	1,535
	2,239	2,176
Gain (perte) sur la conversion de devises étrangères	**376**	(121)
Part des actionnaires minoritaires	**(459)**	(257)
Bénéfice net de l'exercice	**$ 2,156**	$ 1,798
Par action, après dividendes sur les actions privilégiées	**$ 0.28**	$ 0.23

Si les obligations convertibles à 5¾% avaient été converties en date du 1er juillet 1977, le bénéfice par action aurait été de $0.25 pour l'exercice terminé en septembre 1977.

Pour le conseil d'administration:

R. H. PEROWNE, administrateur

Du côté fédéral, après plusieurs mois d'audience et d'études par tout le Canada, la Commission du textile et du vêtement a remis un rapport qui supporte fortement les prétentions de l'industrie quant aux dommages indus causés par les hauts niveaux d'importations. S'il veut connaître des résultats tangibles, le gouvernement devra donner suite aux recommandations de la Commission en concluant une série d'ententes bilatérales à champ d'application étendu avec les pays exportateurs les plus importants. Si ces ententes sont de durée suffisamment longue et accompagnées d'une administration efficace, nous pourrions voir nos usines canadiennes se remettre à produire.

On doit noter que pendant que les mesures canadiennes ont fait l'objet de longs mois de délibération, les États-Unis dans une courte période de temps ont déjà conclu des ententes globales sur les textiles provenant d'importants pays exportateurs comme la Corée du Sud et Hong-kong, et présentement sont en voie d'en négocier plusieurs autres très activement.

Résultats du premier trimestre

Pour conclure, je voudrais maintenant vous faire part des résultats du premier trimestre terminé le 30 septembre 1977. Il me fait plaisir de vous rapporter que les bénéfices ont augmenté comparativement à la même période l'an dernier. Ces bénéfices sont de l'ordre de 28 cents par action par rapport à 23 cents au premier trimestre l'an dernier. Ce 28 cents par action constitue le bénéfice le plus élevé dans toute l'histoire de la compagnie pour un premier trimestre.

Quant aux facteurs qui expliquent ces résultats, l'histoire est passablement la même que celle de l'exercice financier de l'an dernier. Les résultats de nos activités internationales ont été à la hausse, ceux de nos activités canadiennes à la baisse. D'autre part, nous continuons d'enregistrer des gains sur la conversion de devises constituées de nos actifs aux États-Unis.

Il s'agit du septième trimestre consécutif au cours duquel la compagnie a pu améliorer ses bénéfices par rapport aux trimestres correspondants de l'année précédente. Nous nous estimons encore privilégiés de ce genre de performance, quand on considère qu'au cours des deux dernières années plusieurs autres compagnies textiles et plusieurs autres industries ont connu l'inverse. Je souhaiterais pouvoir dire, devant vous, ici même, et avec certitude que cette amélioration se maintiendra, mais il existe trop d'incertitudes présentement. Je peux seulement assurer nos actionnaires que nous allons tenter l'impossible pour maintenir cette force d'impulsion.

représenté $1.1 million ou 8.5 pour cent de nos bénéfices.

Je veux par contre assurer nos actionnaires que les dividendes seront augmentés dès l'instant où les administrateurs seront convaincus que les besoins de la compagnie en fonds seront adéquatement comblés et qu'il y a tout lieu de croire que le nouveau dividende pourra être maintenu pour une longue période de temps.

En ce qui concerne la situation politique au Québec, j'aimerais dire ce qui suit. Dominion Textile est un bon citoyen de la province de Québec. C'est sa volonté et son souci de continuer de l'être. Les récents investissements à Drummondville et Magog en sont la preuve. Depuis fort longtemps, nous avons reconnu la nécessité d'utiliser le français comme langue d'affaires avec nos usines du Québec. Il n'y a pas d'obstacles pour les francophones dans le management; plusieurs en font partie. D'autre part, un grand nombre d'anglophones parmi les dirigeants seniors sont parfaitement bilingues. Nous avons des Américains et des Européens qui sont venus travailler au Canada et nous avons des Canadiens qui travaillent aux États-Unis et en Europe. Voilà le genre de flexibilité de main-d'oeuvre sur lequel une compagnie comme la nôtre doit pouvoir compter, nous semble-t-il, pour survivre dans ce contexte difficile que sont les textiles. Nous sommes maintenant une compagnie internationale dont plus du tiers des ventes s'effectue à l'extérieur du Canada. La majorité de nos ventes au Canada sont destinées à l'extérieur du Québec et une fraction seulement de ce que l'on vend dans la province va à des clients dont la langue maternelle est le français. Vous connaissez ce genre d'histoire déjà.

Mais là où je veux en venir, c'est que le gouvernement du Québec porte sur ses épaules une énorme responsabilité et c'est la suivante. Dans son zèle pour corriger certaines injustices du passé dans les domaines de la langue et du travail, il court le risque de créer d'autres injustices vis-à-vis d'autres éléments de la communauté. Jusqu'à quel point a-t-il ou n'a-t-il pas agi ainsi, agira-t-il ou n'agira-t-il pas, c'est l'opinion personnelle de chacun dans son for intérieur. Nous allons faire tout notre possible pour collaborer avec le gouvernement, mais nous attendons de lui qu'il prenne conscience des réalités auxquelles nous devons faire face dans notre genre de commerce et qu'il ne rende pas notre travail de dirigeants si difficile ou si désagréable que toute collaboration devienne impossible. Et vraiment, le Québec a besoin d'un climat économique qui puisse attirer la venue de capitaux.

L'acquisition de DHJ il y a environ deux ans et demi a eu comme effet d'augmenter sensiblement notre dette à long terme du bilan consolidé de la compagnie. En conséquence, nous avons considéré comme hautement prioritaire le rétablissement du rapport entre la dette à long terme et l'avoir à des niveaux plus convenables. Même si nous avons accompli des progrès en ce sens, il y a encore beaucoup de chemin à parcourir. En clair, nous devons nous efforcer de diminuer notre dette et d'augmenter notre avoir.

Nos additions aux immobilisations sont étroitement contrôlées et, comme je l'ai mentionné plus tôt, les stocks et les comptes à recevoir sont toujours rigoureusement surveillés dans nos efforts de réduction de la dette et de rehaussement de notre rentabilité. DHJ a honoré toutes ses obligations en vertu de l'entente avec ses créanciers, entente qui doit prendre fin en novembre 1978. On est actuellement à penser de nouveaux programmes de refinancement à plus long terme de la partie reportée de la dette de DHJ tenant compte des bénéfices disponibles envisagés.

Quant à l'avoir, je crois que le prix en cours de nos actions en bourse est trop bas. Les actions de Dominion Textile sont sous-évaluées et indûment pénalisées à cause de la combinaison de la léthargie actuelle du marché boursier et du préjugé contre les compagnies établies au Québec. Si les actions de Dominion Textile étaient transigées juste à la moyenne du multiple prix-bénéfices de toutes les actions qui composent l'Index 300 de la bourse de Toronto ou encore à la moyenne des dividendes payés de l'Index 300, nos actions seraient transigées entre $12 et $14 approximativement plutôt qu'à leur taux actuel.

Le conseil d'administration reconsidère régulièrement notre politique en matière de dividendes et il est très conscient du fait qu'il n'y a pas eu d'augmentation depuis mars 1974.

On doit se souvenir que la voie que s'était tracée la compagnie a été radicalement changée en mai 1975 pour donner lieu à une nouvelle possibilité de croissance. La preuve de la sagesse de cette décision se manifeste aujourd'hui dans les résultats obtenus l'an dernier. Cependant, on doit considérer DHJ comme un investissement à long terme et sa situation financière devra se renforcer sensiblement avant que l'on puisse s'attendre à une certaine disponibilité de fonds en provenance de cette source pour payer un dividende.

Nous devons aussi avoir à l'esprit que les gains sur la conversion de devises étrangères ne sont que le reflet d'une réévaluation sur papier de certains actifs nets étrangers de la compagnie. Ces gains ne fournissent pas de fonds. L'an dernier, les gains sur la conversion de devises étrangères ont

conclues sans interruption de travail sauf dans le cas de l'usine Esmond qui a dû fermer ses portes durant six semaines environ à cause d'une grève. L'entente sur les salaires est extrêmement coûteuse. Elle élargit davantage la différence salariale qui existe entre nos usines et celles des États-Unis, et le fardeau des frais généraux est aujourd'hui tel qu'aucune usine ne peut supporter de périodes prolongées d'inactivité et espérer survivre en même temps de façon rentable. Le salaire horaire moyen dans nos usines en 1978 dépassera les $5.00 l'heure.

DHJ Industries Inc.

Permettez-moi maintenant de faire quelques commentaires sur DHJ.

Comme nous l'avons mentionné dans le rapport annuel, les administrateurs ont été très satisfaits de la contribution de DHJ et ses compagnies affiliées aux bénéfices de la compagnie. Sa contribution a en effet plus que compensé le déclin des bénéfices de nos activités canadiennes et les bénéfices de DHJ ont, eux aussi, été réalisés en dépit d'une production moindre que sa capacité normale.

Cependant, le sort de DHJ présentement dépend trop de Swift Textiles dont le rendement fut excellent et continuera de l'être selon toute attente.

La division internationale de DHJ principalement engagée dans le domaine des doublures a également participé de façon significative à l'apport de bénéfices et nous a facilité d'importantes relations d'affaires sur les marchés mondiaux de textiles.

La division des doublures aux États-Unis n'a pas connu la performance qu'on attendait d'elle. Cependant, grâce à la nouvelle usine de finition qui débute tout juste sa production à Monroe en Louisiane, on envisage une amélioration bien définie du rendement de cette division. Dès que l'usine sera bien établie, on pourra s'attendre à ce que l'uniformité dans la qualité du produit dépasse tout ce qui se fait présentement dans l'industrie. Son équipement manufacturier fait preuve de cette haute technologie qui nous permettra de concentrer nos efforts de commercialisation dans des secteurs de l'industrie du vêtement autres que celui de la chemise où dans le passé nos ventes ont été largement confinées.

Nous ne prévoyons aucune contribution aux bénéfices à court terme de la part de la division des tricots. Cette division se trouve à la baisse actuellement, mais nous nous attendons à ce que ses pertes soient substantiellement réduites par suite de l'amortissement extraordinaire effectué l'an dernier.

améliorer nos résultats et ce le sera davantage dans l'avenir. Chaque division constitue une unité indépendante au plan des profits et, de fait, chacune fait concurrence aux autres pour s'accaparer plus de capital et autres ressources, en tenant compte de leur rendement respectif. Il y a plus de chances pour un plus grand nombre de personnes de mettre leurs talents à contribution et de devenir de meilleurs dirigeants.

Dans la situation où se trouve présentement le monde des affaires, on ne doit plus utiliser et immobiliser autant de capitaux en comptes à recevoir et en stocks comme c'était le cas autrefois. Le défi que nous avons lancé à nos directeurs généraux et leur équipe est d'améliorer le retour sur le capital investi dans leur division et nous sommes convaincus que nos actionnaires seront témoins d'une amélioration dans ce domaine.

Les plus importants programmes d'investissement complétés au cours des deux dernières années et qui ont principalement impliqué Magog, Caldwell et Mont-Royal apportent chacun la contribution à laquelle on s'attendait. Dans notre continuelle recherche de rationalisation et de remise à jour de notre équipement manufacturier, les travaux du projet de denim de l'ordre de $8.5 millions ont récemment débuté à Drummondville et à l'usine de finition Magog. On devrait être en pleine production vers la fin du présent exercice financier. Nous avons la chance de pouvoir compter sur la compétence et l'expérience de la direction de notre filiale Swift Textiles de Columbus en Georgie. Swift est reconnue comme l'un des leaders mondiaux de la production de denim indigo.

En lien avec les déclarations fort connues à l'effet que la demande pour le denim est à son déclin, on peut peut-être se demander pourquoi nous nous lançons dans un programme d'investissement pour produire du denim au Canada.

Il est certain que l'approvisionnement et la demande de denim sur le plan mondial sont beaucoup plus équilibrés qu'ils ne l'étaient il y a quelques années. En conséquence, la demande de denim de basse qualité et de type léger a connu une réduction l'an dernier. Cependant, nous avons l'intention de produire un denim lourd de haute qualité pour l'industrie canadienne du ''jean'' et nous sommes convaincus que le volume de ce type de denim restera fort élevé pour plusieurs années à venir.

Nous avons maintenant signé des conventions collectives de travail avec les représentants de nos employés dans dix-neuf usines et il reste seulement trois contrats à signer. Toutes les ententes respectent les directives établies par la Commission de lutte à l'inflation et elles ont été

Ainsi, non seulement avons-nous élargi la base de nos bénéfices, mais encore possédons-nous la capacité manufacturière qui nous permettra éventuellement d'accomplir des progrès substantiels à mesure que les conditions du marché s'amélioreront. Dans les circonstances actuelles, je ne puis pas affirmer avec certitude si certains des signes d'amélioration dans notre genre de commerce ne pourront être autres que temporaires. Je puis vous assurer cependant que dans la plupart des secteurs nos stocks de produits finis sont plutôt maigres et toute impulsion du côté des ventes devrait résulter rapidement en une augmentation des activités en usine.

Nous croyons pouvoir commencer à nous ressentir des effets quelque peu positifs de la décision du gouvernement fédéral de ramener les importations de vêtements aux niveaux de 1975, tel qu'annoncé par le ministre Jean Chrétien en novembre dernier. Il y a eu des quantités tellement massives de vêtements importés dans le réseau de distribution et de détail durant cette période récessive de l'économie qu'il a fallu pratiquement une année complète avant que les premières indications d'une réaction positive ne se manifestent aux yeux des producteurs domestiques.

Permettez-moi de m'écarter de mon sujet principal pour préciser que malgré les prédictions alarmistes de certains milieux les prix des vêtements n'ont pas augmenté dramatiquement une fois les contingentements en vigueur. Depuis que les contingentements sur les vêtements ont été annoncés en novembre 1976, les prix de ces mêmes vêtements ont augmenté de 5 pour cent, soit une augmentation bien inférieure à l'augmentation générale de 6.8 pour cent de l'indice des prix à la consommation. L'écart est encore plus probant par rapport aux composantes les plus importantes de l'indice, comme l'alimentation (11.2 pour cent) et le logement (6 pour cent). Quant à l'indice des prix de l'industrie domestique des textiles primaires, il s'est accru de 4.1 pour cent seulement durant cette période comparativement à 6.6 pour cent pour l'ensemble du secteur manufacturier.

Perspectives

Mais revenons au rendement et à l'avenir de la compagnie.

Comme il a été mentionné dans le rapport annuel, nous avons modifié la structure de nos activités d'exploitation canadiennes durant l'année. Nous les avons réparties en quatre divisions et intégré plusieurs filiales de la compagnie de moindre envergure au sein de ces importantes divisions en se basant sur le même type d'affiliation commerciale. Cette décision contribue déjà à

ALLOCUTION AUX ACTIONNAIRES

Ronald H. Perowne
Président du conseil

L'an dernier, j'ai affirmé aux actionnaires lors de l'assemblée annuelle que la direction de la compagnie était très consciente de la nécessité d'accroître ses bénéfices et j'ai précisé qu'advenant la moindre percée j'avais le sentiment que nous pourrions améliorer notre performance de l'année précédente à ce chapitre.

Comme vous l'avez appris par les chiffres qui ont déjà été publiés, cette amélioration s'est traduite par une augmentation des bénéfices de $1.23 à $1.71 par action et même à $1.87 n'eût été de l'amortissement extraordinaire affecté à nos activités de tricot double aux États-Unis. Ces résultats d'exercice représentent les deuxièmes bénéfices les plus élevés des soixante-douze ans d'existence de la compagnie.

Dans notre rapport annuel de 1977 aux actionnaires, nous avons traité des principaux facteurs sous-jacents aux résultats d'exercice. Cependant, j'aimerais prendre quelques minutes pour faire ressortir et souligner certains aspects du rendement de la compagnie qui, je crois, peuvent s'avérer significatifs pour nos actionnaires et je relierai tout cela aux perspectives d'avenir de l'exercice financier en cours.

Faits saillants

L'importante amélioration des bénéfices s'est accomplie en dépit de la réduction de production dans un certain nombre d'usines au Canada comme aux États-Unis. Comme nous le savons tous, l'économie canadienne est passée et vit encore une période de marasme. Dans le domaine des textiles, en particulier, les marchés mondiaux n'ont pas tellement suscité d'optimisme durant presque toute l'année.

Pour la première fois dans l'histoire de notre compagnie, une importante partie de nos bénéfices consolidés nous est provenue de sources étrangères. En fait, tenant compte des gains sur la conversion de devises étrangères, plus de 30 pour cent de notre bénéfice net l'an dernier nous provient de l'extérieur du Canada.

TABLE DES MATIÈRES

Allocution du président du conseil, Ronald H. Perowne, aux actionnaires 1

Résultats du premier trimestre 7

Résultats et évolution de la situation financière 8, 9

Les administrateurs, les vérificateurs et les directeurs 10

Règlement XLIX

À l'assemblée générale spéciale des actionnaires tenue le 19 octobre 1977, le règlement XLIX a été sanctionné par un vote représentant 5,279,852 actions en faveur et 23,388 actions contre.

dominion textile limitée

FAITS SAILLANTS DE
L'ASSEMBLÉE
ANNUELLE GÉNÉRALE
ET SPÉCIALE 1977
et
RAPPORT INTÉRIMAIRE

texmade

dominion textile limited

and subsidiaries

fil

interim report

6 months ended December 1977

Consolidated earnings for the second quarter ended December 1977 were 53¢ per share compared to 34¢ for the same quarter a year ago. Six month earnings were 81¢ per share compared to 57¢ last year.

The current quarter's earnings were enhanced by the addition of 6 cents per share resulting from the inclusion, for the first time, of a portion of the tax credit on inventories in Canada. Similar quarterly tax credits will be taken into income over the last six months of the fiscal year.

We are pleased to report that in most segments of our Canadian operations there was a marked improvement in new bookings which quickly reflected in increased activity in many of our plants. The increases in sales and plant activity brought commensurate improvement in operating efficiencies and performance over the previous year.

As a result of continuing poor market outlook for double-knit fabrics, DHJ Industries announced in December that it was suspending operations of its doubleknit business in the United States. The operations will be wound-down as orders are completed.

For the six month period, DHJ's results were slightly ahead of last year. The second quarter, however, showed a small loss mainly because the figures reflect the major costs that will be incurred in winding-down the doubleknit activities.

T. R. Bell
President

Montréal, 26 January 1978.

CONSOLIDATED STATEMENT OF INCOME

Unaudited

	THOUSANDS			
	Three months December 1977	Three months December 1976	Six months December 1977	Six months December 1976
Sales	$144,960	$120,158	$261,198	$234,317
Costs and expenses				
Operating costs	131,601	109,427	238,000	213,718
Depreciation	3,294	3,338	6,523	6,791
Interest				
Long term debt	1,996	1,500	3,802	3,014
Other	1,484	1,926	2,620	3,793
	138,375	116,191	250,945	227,316
Income before earnings from associated companies	6,585	3,967	10,253	7,001
Share in earnings of associated companies	(46)	395	328	698
Income from operations	6,539	4,362	10,581	7,699
Other income	376	325	574	699
Income before income taxes	6,915	4,687	11,155	8,398
Income taxes	2,439	1,925	4,440	3,460
	4,476	2,762	6,715	4,938
Gain on translation of foreign currencies	101	217	477	96
Minority interest	(397)	(321)	(856)	(578)
Net income for the period	$ 4,180	$ 2,658	$ 6,336	$ 4,456
Per share, after preferred dividends	$ 0.53	$ 0.34	$ 0.81	$ 0.57

If the $5^3/_4$% convertible debentures had been converted on July 1, 1977, the earnings per share would have been $0.72 for the six months ended December 1977.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Unaudited

	THOUSANDS	
	Six months December 1977	Six months December 1976
Source of funds		
Net income for the period	$ 6,336	$ 4,456
Depreciation	6,523	6,791
Deferred income taxes	968	1,271
Dividends received from associated companies in excess of share in earnings	481	(361)
Cash generated from operations	14,308	12,157
Proceeds from issue of $10^1/_2$% Sinking Fund Debentures, Series D	12,000	—
Increase in other long term debt	2,039	6,744
Minority interests' share of earnings in subsidiaries, net of dividends paid	777	506
Proceeds on sale of fixed assets	147	700
Realization of tax benefit	1,759	303
	$31,030	$20,410
Use of funds		
Repayment of long term debt	$ 7,554	$ 5,541
Additions to fixed assets	10,764	8,044
Dividends	2,355	2,355
Other items — net	391	585
	$21,064	$16,525
Increase in working capital	$ 9,966	$ 3,885

On behalf of the Board: R. H. PEROWNE, Director   T. R. BELL, Director

AR42

tile limitée
et ses filiales

rapport intérimaire

6 mois terminés en décembre 1977

Les bénéfices consolidés du deuxième trimestre terminé en décembre 1977 ont atteint 53 cents par action comparativement à 34 cents pour le même trimestre l'an dernier. Les bénéfices du premier semestre se chiffrent ainsi à 81 cents par action par rapport à 57 cents l'an dernier.

Les bénéfices du dernier trimestre se sont cependant accrus d'un 6 cents additionnel par action suite à l'inclusion, pour la première fois, d'une partie des crédits d'impôts sur les stocks canadiens. Des crédits d'impôts trimestriels similaires seront inclus dans le revenu du second semestre de l'exercice financier en cours.

Il nous fait plaisir de rapporter que dans la plupart des secteurs de nos activités canadiennes on a assisté à une amélioration marquée au chapitre des commandes en carnet, amélioration qui s'est traduite rapidement en une augmentation des activités dans plusieurs de nos usines. L'accroissement des ventes et de la production manufacturière a produit une amélioration proportionnelle de l'efficacité d'exploitation et de la performance par rapport à l'année précédente.

Suite aux perspectives d'appauvrissement continuel du marché des tricots doubles, DHJ Industries a annoncé en décembre la suspension de ses activités de tricot double aux États-Unis. L'exploitation de ce commerce prendra fin à mesure que les commandes seront complétées.

Durant le premier semestre, les résultats de DHJ devançaient légèrement ceux de l'an dernier. Le deuxième trimestre, cependant, connaissait des pertes minimes principalement parce que les chiffres reflètent les coûts importants qui seront encourus lors de la liquidation des activités de tricot double.

Le président,
T. R. Bell

Montréal, le 26 janvier 1978.

ÉTAT CONSOLIDÉ DES RÉSULTATS

Non vérifié

	EN MILLIERS			
	Trois mois décembre 1977	Trois mois décembre 1976	Six mois décembre 1977	Six mois décembre 1976
Ventes	$144,960	$120,158	$261,198	$234,317
Coûts et dépenses				
Frais d'exploitation	131,601	109,427	238,000	213,718
Amortissement	3,294	3,338	6,523	6,791
Intérêts				
Dette à long terme	1,996	1,500	3,802	3,014
Autres	1,484	1,926	2,620	3,793
	138,375	116,191	250,945	227,316
Bénéfices avant quote-part des compagnies associées	6,585	3,967	10,253	7,001
Quote-part des bénéfices des compagnies associées	(46)	395	328	698
Bénéfice d'exploitation	6,539	4,362	10,581	7,699
Autres revenus	376	325	574	699
Bénéfice avant impôts sur le revenu	6,915	4,687	11,155	8,398
Impôts sur le revenu	2,439	1,925	4,440	3,460
	4,476	2,762	6,715	4,938
Gain sur la conversion de devises étrangères	101	217	477	96
Part des actionnaires minoritaires	(397)	(321)	(856)	(578)
Bénéfice net de l'exercice	$ 4,180	$ 2,658	$ 6,336	$ 4,456
Par action, après dividendes sur les actions privilégiées	$ 0.53	$ 0.34	$ 0.81	$ 0.57

Si les obligations convertibles à 5¾% avaient été converties en date du 1er juillet 1977, le bénéfice par action aurait été de $0.72 pour l'exercice terminé en décembre 1977.

ÉTAT CONSOLIDÉ DE L'ÉVOLUTION DE LA SITUATION FINANCIÈRE

Non vérifié

	EN MILLIERS	
	Six mois décembre 1977	Six mois décembre 1976
Provenance des fonds		
Bénéfice net de l'exercice	$ 6,336	$ 4,456
Amortissement	6,523	6,791
Impôts sur le revenu reportés	968	1,271
Dividendes reçus des compagnies associées en plus de la quote-part des bénéfices	481	(361)
Encaisse générée par l'exploitation	14,308	12,157
Produit de l'émission des obligations 10½%, série D, à fonds d'amortissement	12,000	—
Augmentation des autres dettes à long terme	2,039	6,744
Quote-part des bénéfices des filiales revenant aux actionnaires minoritaires, déduction faite des dividendes versés	777	506
Produit de la vente d'immobilisations	147	700
Réalisation d'un avantage fiscal	1,759	303
	$31,030	$20,410
Utilisation des fonds		
Remboursement sur la dette à long terme	$ 7,554	$ 5,541
Nouvelles immobilisations	10,764	8,044
Dividendes	2,355	2,355
Autres éléments — net	391	585
	$21,064	$16,525
Augmentation du fonds de roulement	$ 9,966	$ 3,885

Pour le conseil d'administration: R. H. PEROWNE, administrateur T. R. BELL, administrateur